PRINCIPLES OF BOOKKEEPING

Corporation and Voucher Accounting

MINER AND ELWELL

MINER AND ELWELL SERIES

PRINCIPLES OF BOOKKEEPING

CORPORATION AND VOUCHER ACCOUNTING

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PREFACE

The large number of business enterprises conducted by corporations has resulted in a demand for a bookkeeping text which would cover the basic and fundamental points connected with corporation accounting. The points which distinguish corporation accounting from sole proprietorship and partnership accounting are explained in this work in some detail, and the optional exercises of the text allow the student an opportunity to apply the principles presented.

In contrast with the various kinds of mercantile businesses taken as the bases for the preceding laboratory sets, the manufacturing business is used in this text as the basis for a practice set so that the student may become familiar with records, books, accounts, and statements suited for this type of industry.

The voucher system of recording commodities purchased is illustrated and used in Set IX. Students will find no difficulty in mastering its basic principles or in understanding the application of such variations of the system as may be found in practice.

In the last chapter of the text the authors give a descriptive introduction to the subject of cost accounting, and touch upon those points with which the cost clerk should be most familiar.

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Business men, bookkeepers, and certified public accountants have also been consulted freely regarding many features of the text, and their practical suggestions have added to the working value of the book.

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CHAPTER XXXIII

INTRODUCTION TO CORPORATE ORGANIZATION

Definition. A corporation has been defined as "an artificial being, invisible, intangible, and existing only in contemplation of law" (Chief Justice Marshall, 4 Wheaton, 518). A corporation is formed only through process of law, by a number of persons associating themselves for the purpose of conducting a legal business. Three is the usual number prescribed by law as the minimum number of persons who may form a corporation.

Formation of Corporations. The corporation laws of each state specify the manner in which a corporation may be formed, and they are the primary sources of power under which a corporation operates.

In a few states corporations for certain purposes secure their charters only through special acts of the legislature.

Since the corporation laws of the different states vary greatly, general statements cannot be made relative to the specific requirements to be followed in organizing a corporation in any state. The usual procedure may be summarized as follows:

The persons desiring to form a corporation prepare written articles of association, containing the facts required by the corporation law. These articles are signed and acknowledged, and then they are sent to the proper state official. In some states the articles of association are prepared in duplicate: one copy is retained in the state official's office, and the second, bearing the approval of the state official, must be filed in the designated county official's office. The publication of notices relating to the application for incorporation, the payment of incorporation and filing fees, and all other requirements of the state law must be satisfied.

Charter. If the provisions of the statutes as to the purpose and the method of organization are fulfilled, the corporation receives a charter. The charter is frequently a formal certificate of incorporation issued by a state official, or it may be an authorization from the state in some other form. In New York, for example, the application to incorporate, approved by the Secretary of State, becomes the charter. The usual data contained in a charter relates to the name, capitalization, location,

purposes, and duration or life of the corporation. The charter is also considered as including the law under which the corporation is organized.

The persons who petition the state officials for a charter are known as the incorporators. By the act of subscribing to the capital stock they also become stockholders. After incorporation, a subscriber or the recorded purchaser of the capital stock is known as a stockholder.

By-laws. The by-laws of a corporation are the rules adopted by the stockholders relating to the detailed management of the business. It is a fundamental principle of corporation law that the provisions of the by-laws must not conflict with the charter of the corporation or with the state laws.

Kinds of Corporations. Corporations may be divided into two general groups:

1. Corporations not organized for profit, such as colleges, churches, and clubs.

2. Corporations organized for profit, of which there are three kinds, according to the purposes for which the organization was formed, — general business, public utility, and financial.

The general business corporation class includes the usual manufacturing, trading, and mercantile companies; the public utility corporation class usually includes railroads, water, electric, gas, and telephone companies; while the financial class generally includes banks, trust companies, insurance companies, and building and loan associations. The majority of states have different laws for the organization and the operation of these different classes of corporations. In this text attention is given only to the general business corporation group.

Domestic and Foreign Corporation Laws. A state frequently has two general business corporation laws, — the first relating to corporations organized within the state and known as the domestic corporation law, the second relating to corporations organized in other states but transacting business within this state and known as the foreign corporation law. The rights and the obligations of domestic and foreign corporations, as stated in these laws, often vary greatly, and when any question arises, reference should always be made to the appropriate state law.

Names of Corporations. The statutes of some states prescribe that the name of the corporation must contain certain words. For example, it is often compulsory for the name of a corporation to start with the word *The* and end with the word *Company*. In other state laws it is provided that the word *Incorporated* or the abbreviation *Inc.* must be stated in connection with the company name. In the majority of states it is provided that the names of corporations may not be the same as

sole proprietorships, partnerships, or corporations already engaged in business within the state, and cannot be so similar as to cause confusion in the mind of the general public.

General Powers of a Corporation. The statutes grant to every business corporation certain general powers. While the general powers vary slightly in the different states, those generally conferred may be stated as follows:

(*a*) To have succession
(*b*) To sue or to be sued under its corporate name
(*c*) To use a common seal
(*d*) To purchase, to hold, and to convey lands and chattels
(*e*) To elect officers and to appoint agents
(*f*) To make by-laws

Advantages of Corporate Organization. The advantages of the corporate organization are as follows:

1. The existence of the corporation is not dependent upon the life or the condition of any of its stockholders.

2. The corporation as a legal person, and not the stockholders as individuals, acts as a party in legal cases.

3. The corporation may deal in real estate as a legal person.

4. The directors assume definite responsibility, and their orders generally result in a unification and a continuance of acts and policies highly advantageous to business.

5. The liability of stockholders for corporate indebtedness generally is limited to the stock subscription.

6. Advantages 1 and 5 combine in giving corporations a decided advantage over partnerships in the securing of capital investments.

The Disadvantages of Corporate Organization. The disadvantages of the corporate organization, slight in comparison with the advantages given, are as follows:

1. The fees and the franchise taxes must be paid.

2. Foreign corporation laws are often stringent.

3. The limited liability of the stockholders and the legal artificiality of the corporation sometimes prevent the extension of credit necessary for the safe-conduct of the corporation's business.

4. This type of organization is unsuited for professions in which individual skill and individual responsibility are the important factors. Examples are the medical, the legal, and the accounting professions.

Some business men claim that the requirement of the majority of the states demanding an annual report to be filed with a state official is a disadvantage. On the other hand, a constantly increasing number of men of affairs believe that a detailed annual financial report, prepared

or approved by a certified public accountant, offers distinct advantages to both the stockholders and the corporation itself.

The following exercise is suggested as the basis for a recitation.

Exercise 80. Introduction to Corporate Organization

1. Define a corporation.
2. Define a charter.
3. What are by-laws?
4. Can the by-laws be in conflict with the statutes or the charter?
5. What are the two general kinds of corporations?
6. What general class of corporations in your state would be subject to the domestic corporation law? to the foreign corporation law?
7. What is the rule of law relative to the name of a corporation duplicating or closely resembling the name of another business?
8. State six powers of a corporation.
9. State six advantages of corporate organization over partnership organization.
10. Summarize the disadvantages of corporate organization.

CHAPTER XXXIV

THE STOCK SYSTEM

Capital Stock. The *Capital Stock* account of a corporation records the investment in the business, and in this respect corresponds to the proprietor's investment account in a sole proprietorship and to the partners' investment accounts in a partnership.

Terms Used. Several different terms are used in referring to the authorization, the subscription, the payment, and the ownership of the capital stock of a corporation. The *authorized* capital stock is the maximum amount which may be issued. The *subscribed* capital stock is the stock which is subscribed. The *paid-up* capital stock is the stock paid for by stockholders. The majority of state laws require certain portions of the authorized capital stock to be subscribed and paid for before the corporation has legal existence. Only when authorized capital stock is subscribed and paid for in full do the three terms refer to the same amount. *Unsubscribed* capital stock applies to the portion of the authorized capital stock not subscribed. *Treasury* stock is capital stock which, having been previously subscribed and paid for by stockholders, is purchased by the corporation from the stockholders, or donated to the corporation by the stockholders. Outstanding capital stock represents the subscribed capital stock, or the difference between the subscribed capital stock and the treasury stock. Capital stock is usually issued as nonassessable. If it is not, assessments may be levied whenever the directors deem it advisable.

Share. A share is one of the units of equal value into which the capital stock of a corporation is divided, and generally grants to its owner, called the stockholder, the rights of voting in the stockholders' meetings, and of sharing in the profits earned and in the assets available for distribution upon dissolution. The amount of capital stock divided by the number of shares issued gives the par value of a share. In practice the par value of a share is usually decided upon first, and then the total amount of capital deemed necessary is divided by the par value in order to determine the number of shares to issue. A minimum amount which may be used for the par value of a share is designated in some of the state laws.

Stock Certificate. Ownership of a share of stock is evidenced by a stock certificate, although one stock certificate may be issued for the total number of shares owned by a stockholder. A stockholder cannot claim ownership of any particular property belonging to the corporation, since he has a right only to that proportion of all the corporate property which the shares he owns bear to the total shares outstanding.

Classes of Stock. The varying conditions and limitations under which stock is issued to the stockholders of a corporation give rise in some states to several distinct classes of stock. The classes in general use are known as common stock and preferred stock.

Common Stock. Common stock carries the same rights and obligations to all its owners. The use of the words *capital stock* without qualification as to kind implies that the stock of the corporation is all common stock.

Preferred Stock. Preferred stock grants the owners thereof preferences over the common stockholders as to dividends, voting, or distribution of assets upon dissolution.

The laws of the different states vary so widely regarding the meaning and the issuance of preferred stock that in every case involving detailed knowledge of the facts the specific state law under consideration should be studied.

The right to share in the accrued profits before any allowance is made for the dividends on the common stock is one general preference granted the holders of the preferred stock. The dividend rate on preferred stock is usually fixed at the time of issue. Thus an issue of 7% preferred stock means that the dividend rate on this stock is 7% of the par value thereof.

The dividends on preferred stock may be either cumulative or noncumulative, and the stock is thus known as cumulative preferred stock or noncumulative preferred stock, respectively. If the dividends on *cumulative preferred stock* are not paid for one or more years, they cumulate and must be paid in full before other kinds of stock receive any portion of the profits.

If dividends on *noncumulative preferred stock* are not paid for the period, they lapse and thus do not become a charge against the earnings of future periods.

Book Value and Market Value. The value of the proprietary interest in a corporation may differ materially from the outstanding capital stock, owing to operating profits or losses, the difference between the book values of assets and liabilities and their actual values, and present conditions and future prospects of supply and demand for the product of the

business. The market value of a share of stock may therefore differ from the par value and from the book value of the share. One of the purposes of recording values is to learn the financial status of a business, and while it may be impossible to have the book values and the actual values correspond, every effort should be made to prevent a wide variation between the two. In order to avoid the present practice of placing a par value on a share of stock at the time of organization and then seldom using it again, some state laws now allow corporations to be organized with no par value of stock stated. The subscribers decide upon the amount to be paid for each share at the time of incorporation and thereafter the value of a share is determined by dividing the net assets by the number of shares of stock outstanding. Undoubtedly within a few years corporations with capital stock of no par value will come to be a common occurrence.

Corporate Administration. Stockholders are the owners of the capital stock of a corporation. Upon incorporation and annually thereafter the stockholders meet and elect directors of the corporation, in accordance with the provisions of their by laws.

Stockholders are allowed a vote for each share of stock owned, and may vote in person or by proxy.

The elected directors are known as the board of directors, and they direct the management and the general administration of the corporation's affairs.

The directors of a corporation elect the officers of the corporation. The usual officers are the president, vice president, secretary, and treasurer. The board of directors also has the power to appoint agents to transact business for the corporation.

Cumulative Voting. This is a method of voting prescribed by some state laws, and possible under others, the object of which is to place representatives of the minority stockholders upon the board of directors.

The following exercise is suggested as the basis for a recitation.

Exercise 81. The Stock System

1. Give a definition of the following terms: capital stock, authorized capital stock, subscribed capital stock, paid-up capital stock, unsubscribed capital stock, treasury stock, a share, a stockholder, common stock, preferred stock, cumulative preferred stock, noncumulative preferred stock, cumulative voting.
2. What are the general rights of a stockholder?
3. Distinguish between the book value and the market value of stock.

CHAPTER XXXV

THE STOCK BOOKS

The corporate stock system necessitates the use of certain books in which all transactions of the system may be recorded. The books kept for this purpose are referred to as the stock books of the corporation and should be distinguished at all times from the financial records of the company. The stock records contain details of official transactions and data relative to the purchase, the payment, the ownership, and the transfer of stock, and the payment of dividends thereon. Some of the financial transactions occurring in connection with these data may appear in the financial records, in summary form, but the details of all transactions should be found in the appropriate stock record.

Minute Book. This book contains a record of all the meetings of the stockholders or of the board of directors, and is usually kept by the secretary of the corporation.

Subscription Book or List. This book or list contains the date of record, the names and the addresses of the subscribers, the number of shares, and the amount subscribed for by each stockholder.

We, the undersigned, do hereby subscribe for and agree to take the number of shares of the Madison Chair Company's stock set opposite our respective names:

Date		Name of Stockholder	Address	Number of Shares	Amount
Feb.	1	George Clark	Madison, Wis.	175	17500
	1	F. M. Williams	Madison, Wis.	175	17500
	1	E. M. Hadley	Madison, Wis.	175	17500
	1	F. W. Kramer	Madison, Wis.	175	17500
	1	W. R. Wood	Madison, Wis.	175	17500
	1	John R. Inman	Sheboygan, Wis.	125	12500
					100000

FORM OF SUBSCRIPTION BOOK OR LIST

Installment Book or List. This book or list is used when subscriptions are paid in installments, and contains the number and amount of each installment, when it is due, and the names of the subscribers.

Installment Scrip Book. This is a book of blank receipts to be filled out and signed by the secretary and the treasurer as the installments are paid.

Installment Ledger. This book is kept by some corporations in order to record temporarily the accounts of subscribers paying for stock on the installment basis. A subscriber is charged with the amount of each installment when it becomes due, and is credited with installment payments as evidenced by the installment scrip book.

Stock-Certificate Book. This book contains blank certificates, with stubs, to be filled out and signed, usually by the president and the secretary of the corporation. For convenience, these certificates are numbered consecutively. The stockholder frequently signs the stub as a receipt when the certificates are issued to him.

A bill of sale in blank is always printed on the back of the certificate to facilitate the sale and the transfer of stock.

A separate stock-certificate book should be kept for each kind of stock issued. The stubs of the stock-certificate book usually serve as a posting medium to the stock ledger.

Stock Ledger. This book is a ledger which, according to one method of keeping it, shows the number of shares of stock held by each stockholder.

Date	To Whom Transferred	Number of Certificate	Number of Shares	Date	From Whom Transferred	Number of Certificate	Number of Shares

STOCK-LEDGER RULING

Data for the accounts with stockholders are obtained from the stock-certificate and the stock-transfer book, the accounts being credited with the shares issued and debited with the shares transferred. The

Certificate

No. 5

For — Fifty — Shares

Issued to

W. R. Wood

Dated Feb. 1, 19—

From whom transferred

Dated 19

No. Original Certificate	No. Original Shares	No. of Shares transferred

Received Certificate No. 5

for — Fifty — Shares

this First day of Feb. 19—

A. R. Wood

INCORPORATED UNDER THE LAWS OF

WISCONSIN

No. 5 50 Shares

Madison Chair Company

CAPITAL STOCK $100,000

FULL PAID AND NONASSESSABLE

This Certifies That W. R. Wood is the owner of Fifty Shares of the Capital Stock of the

Madison Chair Company

transferable only on the Books of the Corporation in person or by Attorney upon surrender of this Certificate.

In Witness Whereof, the duly authorized officers of this Corporation have hereunto subscribed their names and caused the corporate Seal to be hereto affixed this First day of February A.D. 19

F. M. Williams
TREASURER.

George Clark.
PRESIDENT.

SHARES $100. EACH

STOCK-CERTIFICATE BOOK

balance of each individual stockholder's account indicates the number of shares in his possession, while the balance of the stock ledger kept in this manner should agree with the total shares of the capital stock outstanding. Some of the state corporation laws prescribe the data to be contained in the stock ledger, and strict compliance with the provisions of such laws should be made by all corporations subject to them. There are various other methods of keeping the stock ledger. The chief among them is the use of amounts, as well as the number of shares, on a double-entry basis, the making of the stock ledger self-balancing, and the using of the *Capital Stock* account in the general ledger as a controlling account, with the stock ledger as a subsidiary to that account. Separate stock ledgers should be kept for each kind of stock issued.

Stock-Transfer Book. This book contains blank transfers with stubs and is used to record the transfer of stock from one person to another. It evidences ownership of the stock mentioned therein, before stock certificates are issued. In some corporations a stock-transfer book is maintained only at the office of the company, while in other corporations, particularly those whose stock is transferred frequently, transfer agents are appointed in different cities and transfer books are kept at each office. The form of the transfer book may vary to conform to the method of transfer used in different corporations, but the vital information of such a record is shown in the following illustration. In some states the laws prescribe the data to be recorded in the stock-transfer book, and a state official prescribes the form of the book. The data from the stock-transfer book are recorded on the stub of the stock-certificate book, and from there postings are made to the stock ledger.

No. of Certificate canceled	Shares canceled	Ledger Folio	TRANSFERRED BY
2	10	2	F. M. Williams
No. of New Certificate issued	**New Shares issued**		**TO**
12	10	3	A. C. Webb

For Value Received, I do hereby assign and transfer to

A. C. Webb

Ten Shares of the Capital Stock of

The Madison Chair Co., Madison, Wis.

Witness my hand and seal, this 4th day of August, 19—

Sealed and delivered in the presence of

F. M. Williams [L.S.]

J. W. Turner

STOCK-TRANSFER BOOK

Dividend Book. This book shows the names of the stockholders, the number of shares of stock, the par value of each share, the amount of dividend due each stockholder, and the date on which the dividend was paid.

The stockholder sometimes receipts for dividends in the dividend book. When payment is by dividend check, this is, of course, unnecessary.

First Semiannual Dividend, Aug. 1, 1917, 3%

Stockholder	Certificate No.	Number of Shares	Par Value per Share	Amount of Dividend	When Paid		Signature for Payment
George Clark	1	175	100	525	Aug.	5	George Clark
F. M. Williams	2	175	100	525		5	F. M. Williams
E. M. Hadley	3	175	100	525		5	E. M. Hadley
F. W. Kramer	4	175	100	525		5	F. W. Kramer
W. R. Wood	5	175	100	525		5	W. R. Wood
John R. Inman	6	125	100	375		5	John R. Inman

FORM OF DIVIDEND BOOK

CHAPTER XXXVI

OPENING THE FINANCIAL BOOKS

Names of Accounts for Recording Capital Stock. If all the capital stock of a corporation is common stock, the investment account is called *Capital Stock*, but if two or more kinds of capital stock are issued, separate accounts are maintained for each kind of stock. Proper account names may be obtained in each case by prefixing the name of the kind of stock to the term *capital stock.* Thus, if a corporation issues both common and preferred stock, two accounts are kept, one with *Common Capital Stock* and the other with *Preferred Capital Stock.* Separate subscription accounts for each kind of stock should also be kept. The entries in the following discussion all refer to common stock, but the same principles apply to the recording of other stock issues.

A Completely Subscribed Issue. When a corporation is formed and the entire amount of capital stock is subscribed and paid for in cash, there are two ways of recording the transactions in the financial records: in the first method, *Cash* is debited directly with the amount of capital stock; in the second method, an account with *Subscription* is used as an intermediary account. To illustrate these two methods, assume the capital stock to be $75,000. The entries for the two methods are, in order, as follows:

1		
Cash	75000	
Capital Stock		75000
Capital stock subscribed and paid in full.		
2		
Subscription	75000	
Capital Stock		75000
Per subscription list.		
Cash	75000	
Subscription		75000
Payment of subscription in full.		

The capital stock may be subscribed in full, and only a portion of the subscribed amount paid. In this case, assuming $25,000 of the $75,000 subscription to capital stock to be paid, the journal entries are:

Subscription	75000	
Capital Stock		75000
Per subscription list.		
Cash	25000	
Subscription		25000
Portion of subscription paid.		

A Partially Subscribed Issue. Frequently only a portion of the authorized capital stock is subscribed, and only a part of the subscription paid. There are two methods of recording these facts. The first, and the one preferred, is to make entries corresponding to those just made in the preceding case. Thus, assuming the authorized capital stock to be $75,000, of which $50,000 is subscribed and $25,000 paid, the entries are:

Subscription	50000	
Capital Stock		50000
Per subscription list.		
Cash	25000	
Subscription		25000
Portion of subscription paid.		

In the *Capital Stock* account a memorandum should be made underneath the account name, giving appropriate details of the authorized capital stock. If the authorized capital issue of $75,000 is divided into 750 shares of $100 each, the *Capital Stock* account heading would appear as follows:

Capital Stock

Authorized capital, 750 shares, $100 par value, $75,000

When financial statements are compiled for any purpose, the fact that the capital stock outstanding is only a portion of the authorized issue should be clearly shown. In the case under consideration the capital stock item appears as follows:

Capital Stock

Authorized	$75000	
Unsubscribed	25000	
Outstanding		$50000

That portion of the outstanding capital stock unpaid is reflected by the balance of the *Subscription* account, which appears among the assets of the corporation. Under the majority of subscription agreements it represents a definite, collectible debt due the corporation.

The second method of recording the fact that only a portion of the authorized capital stock is subscribed and only a part of the subscription is paid is to open an account with *Unsubscribed Capital Stock* for the proper amount. Using the same case as before, the journal entries would be as follows:

Subscription	50000	
Unsubscribed Capital Stock	25000	
Capital Stock		75000
To open the *Capital Stock* account, recording both the amounts subscribed and unsubscribed.		
Cash	25000	
Subscription		25000
Portion of subscription paid.		

Since the *Unsubscribed Capital Stock* is not an asset account but only a record of the right of the corporation to issue more stock, the amount of such stock should be subtracted from the authorized issue in preparing the financial statements and only the amount of capital stock outstanding should be extended. The same form may be used for this purpose as is used in illustrating the first method.

As portions of the unsubscribed stock are subscribed, the *Subscription* account is debited and the *Unsubscribed Stock* account is credited. The *Unsubscribed Stock* account, therefore, balances when all the capital stock is subscribed. The *Subscription* account balances when payment is made for all the subscribed stock.

Installment Payments. Stock subscriptions are often paid in installments. When the first installment is due, the journal entry, assuming the amount of the installment to be $5000, is as follows:

Installment No. 1	5000	
Subscription		5000
Portion of installment due on first installment, per installment book.		

If payments on this installment totaling $4000 are received, the entry is as follows:

Cash	4000	
Installment No. 1		4000
Cash received on this installment, per installment scrip book.		

Installment accounts are opened in sequence as installments become due, and each is closed when the respective payments have been made. A record is also kept in the installment book, and scrip is issued for installment payments as described on page 425.

The by-laws of corporations generally provide that if installments on stock subscriptions are not paid, the payments already made are forfeited thereby to the corporation. The disposition of the subscribed stock is a matter to be decided by the directors of the corporation.

In the illustrations used in this chapter all entries are expressed in journal form, though cash entries may be made just as accurately in the cashbook. All payments for subscriptions are assumed to be by cash.

Organization Expense. In organizing corporations there are frequently many expenses incurred for which nothing tangible is received, and yet such items cannot be charged equitably against the profits of the first fiscal period. Thus, expenses for investigating proposed locations for factories, expenses for investigating the processes or the methods employed by different companies, legal fees, and the cost of promotion are items often incurred before a corporation is in actual operation. Such items are usually charged to an account called *Organization Expense*, and a portion of it, called *Organization Expense Written Off*, is charged against the profits of each period. The amount to be charged periodically depends upon the amount of the organization expenses and the possibilities of profits, and this is a matter to be decided by the board of directors of the corporation.

Exercise 82 is recommended for drill in opening the financial books of a corporation.

Exercise 82. Opening the Financial Books

1. A corporation has been formed with a capital stock of $75,000. This sum has been fully paid in cash. Required, the necessary entries.

2. A corporation has been formed with a capital stock of $35,000. This sum has been subscribed and paid in cash. Make the necessary entries.

3. A corporation has been formed with a capital stock of $150,000. Of this sum, $125,000 has been subscribed and paid; the balance, $25,000, is to be held in reserve, unissued. Required, the necessary entries.

4. A corporation has been formed with a capital stock of $75,000. Of this sum, $50,000 has been subscribed and paid; the balance, $25,000, is to be held in reserve, unissued. Make the necessary entries.

5. A corporation has been formed with a capital stock of $100,000. Of this sum, $75,000 has been subscribed, of which $50,000 has been paid in cash, and the balance, $25,000, is to be paid in five equal

monthly installments. The balance of the capital is to be held in reserve, unissued. Required, the necessary entries. One month after the organization of the corporation the first payment on installments was made. Required, the necessary entries.

6. A corporation has been formed for the manufacture of paper-box machinery, with a capital stock of $150,000. The owner of the patents is to receive for his inventions 400 shares of stock, at $100 per share. Of the stock remaining, 800 shares have been subscribed and paid in full, and 300 shares are to be held in reserve, unissued. Make the entries necessary to open the books of the corporation.

7. A corporation has been formed for the purpose of manufacturing paper boxes. The capital stock is to be $50,000, divided into 1000 shares of $50 each, 200 shares of which are preferred stock, and the remaining 800 shares common stock. The preferred stock has been subscribed and paid. Of the common stock, 60% has been subscribed at par. Of this latter sum, 40% has been paid in cash, and the balance is to be settled for in five equal monthly installments. The balance of the capital stock is to be held in reserve, unissued. Make the entries necessary to open the books of the corporation.

8. A corporation has been formed with a capital stock of $40,000, divided into 400 shares at $100 per share. Of the capital stock, 75% has been subscribed at par, and full payment made in cash; the remainder is to be held in reserve, unissued. Make the necessary opening entries.

9. *a.* Explain the exact relationship of the following amounts to one another, and state the books, financial or stock, or both, in which the details or the sums would appear.

Installment No. 1, calls in arrears	$1000
Installment No. 2, called	2000
Authorized Capital Stock	10000
Subscribed Capital Stock	9000
Amount paid in at time of subscription	3000
Amount called in by Installment No. 1	2000
Unissued Capital Stock	1000
Payments on Installment No. 1	1000
Cash on hand	5000
Payments on Installment No. 2	1000
Balance of *Subscription* account	2000

b. Give the journal entries which would produce the data given in *a.*

c. Give the trial balance of the corporation as far as these capital stock items are concerned.

CHAPTER XXXVII

DISPOSITION OF NET PROFIT

The Surplus Account and the Dividend Account. The nominal and the summary revenue accounts of a business are the same whether the business is conducted as a sole proprietorship, a partnership, or a corporation. However, the proprietary interest accounts differ for each type of organization, and therein lies one of the distinguishing features of corporation accounting. Since the individual stockholders' accounts are not in the general ledger, and since the capital stock of a corporation may not be changed except by due process of law, some method other than that used in sole proprietorships and partnerships must be found for recording periodical profits and for distributing them to the owners of the business. The method of closing corporation books and distributing the profits involves the use of the *Surplus* account and the *Dividend* account.

The balance of the *Appropriation* revenue account is closed into the *Surplus* account at the end of each fiscal period. Assuming that the *Appropriation* account shows a credit balance of $10,000, the journal entry is as follows:

Appropriation	10000	
Surplus		10000
To transfer the net profit of the period to the *Surplus* account.		

The word *surplus* implies excess income, and the *Surplus* account is used to record accumulated profits.

The stockholders have no legal right to claim any portion of the surplus until the directors declare dividends. Dividends may be defined as the portion of the corporation surplus allotted to stockholders.

Cash Dividend. Should the directors decide to declare an 8% cash dividend on a capital stock of $100,000, and thus vote to distribute $8000, the entry to record such declaration would be as follows:

Surplus	8000	
Dividends Declared		8000
To record declaration of 8% dividend, payable............		

When the dividends are paid, the entry expressed in journal form is as follows:

Dividends Declared	8000	
Cash		8000
Payment of 8% dividend.		

Stock Dividend. Under the corporation laws of many states dividends may be paid in stock. In case the authorized amount of capital stock has to be increased, due permission must be obtained from the proper state officials in the manner prescribed in the state corporation law. The entry to record the declaration of a stock dividend, using the same figures as in the above illustration, is as follows:

Surplus	8000	
Stock Dividend		8000
To record declaration of 8% stock dividend, payable.............		

When the stock dividend is distributed, the journal entry is as follows:

Stock Dividend	8000	
Capital Stock		8000
To record distribution of 8% stock dividend.		

How Dividends are Declared. The amount of dividends declared for each kind of stock may be expressed either as a percentage or as a definite amount per share. The former method is the general practice, and the fact that a board of directors declares an 8% dividend on the common stock means that each holder of common stock will receive 8% of the par value of the stock owned.

Dividends are usually numbered consecutively, and either separate accounts may be kept for each dividend or the *Dividends Declared* account may be made a controlling account.

If both common and preferred stock are outstanding, separate dividend accounts should be used for each class of stock.

Dividends may be declared annually, semiannually, or quarterly, but the period does not alter the use of the *Dividend* account.

From What Payable. With the possible exception of solvent corporations operating wasting properties, — mines, quarries, timberlands, — the dividends are payable only out of net profits, and thus capital investments remain intact for the benefit of the creditors and the future stockholders. The payment of dividends out of the capital is prohibited by law in most of the states.

To Whom Payable. Dividends are payable only to bona-fide holders of stock certificates, as evidenced by the stock records of the corporation. The amount of each dividend payable to each stockholder appears in the dividend book, one of the stock records. In large corporations whose stocks are actively traded in on the exchanges, the dividends are usually declared payable to stockholders of record on a given date. The notice of this fact may often be found in the metropolitan daily and financial papers, worded somewhat as follows: "The annual dividend of the X Company is payable July 1. Stock books close June 10 and open July 5."

The *Dividends Declared* account is a current liability of the corporation, and the stockholders have the same rights with regard to its collection as other creditors have with regard to their claims.

Dividends upon cumulative preferred stock are contingent upon profits being earned, and until that condition exists, they are not a liability of the corporation and should not appear upon the books of account. It is highly advisable, however, that all stockholders should be informed of any cumulative preferred dividends, and a footnote, giving the appropriate data and appended to the financial statement, is considered the best method of imparting the information.

The following exercise is suggested for drill in the use of the *Surplus* account and the *Dividend* account.

Exercise 83. Disposition of Net Profit

1. The capital stock of a corporation is $250,000, divided into $100,000 of 7% cumulative preferred stock, and $150,000 of common stock. Dividends have not been paid for five years past, but during the year under consideration $90,000 profit was made. Give the journal entries to record properly the distribution of the profit to the stockholders for the six years. What dividend rate per cent do the common stockholders receive?

2. The capital stock of a corporation is as follows:

6% First Preferred Stock	$250000
7% Second Preferred Stock	200000
Common Stock	150000

The net profits for the year are $44,000.

Assuming the directors declare dividends for the entire amount, give the journal entries to record properly the distribution of the profits.

CHAPTER XXXVIII

CORPORATION BONDS

Definition. A bond is the written promise of a corporation to pay the stated sum on the given date with interest at the stated rate. Bonds are generally issued when a corporation desires to obtain for use over a long period of time a large sum of money for the construction of fixed assets or for the improvement or the extension of the present property. The majority of bonds issued have a life varying from ten to fifty years. The statement of all the conditions relating to issuance and payment appears upon the face of the bond and is called the bond recital.

Security for Payment. Security for the payment of the amount borrowed generally takes the form of a mortgage on the property, and the bond is then called a mortgage bond. The bondholders may claim the property if the debt is not paid when due. Mortgage bonds are of different kinds; for example, *first*, *second*, *general*, and *blanket* are terms used in connection with mortgage bonds to indicate the type of security given and the order in which the claim may be satisfied if the mortgages are foreclosed.

Interest. Interest upon bonds must be paid at the date when due or bondholders may satisfy their claims through legal procedure. For this reason, bond interest is referred to as a fixed charge.

Bond interest is usually payable semiannually.

A coupon bond is one issued with interest coupons attached so that the bondholder merely detaches the coupon at the time the interest is due, and presents it at a bank, the office of the corporation, or the office of a broker in order to receive the actual interest money. Coupon bonds are negotiable, and presentation of the matured bond itself is accepted as evidence of ownership.

A registered bond is one upon which interest is payable to the person whose name is recorded in the office of the corporation as being the owner thereof. When the bond becomes due, payment is made to the name contained in the register of bondholders.

Some bond issues provide for the registration of the face of the bond and for the payment of the interest by coupons.

Date of Maturity. All the bonds of an issue may have the same date of maturity or the bonds may be issued serially, in which case bonds within a certain range of numbers fall due at different dates.

Redemption. Bonds may be redeemed in different ways. Among the several methods of redemption, the bond recital may provide that the face of the bond is to be paid in gold at maturity, that the bond is convertible into preferred stock within a given period on a certain basis of exchange, or that the bond is redeemable in cash before maturity on a certain basis.

Recording the Sale of Bonds. If an issue of 1000 twenty-year 5% first-mortgage bonds, denomination $100, were sold at par, the entry expressed in journal form would be as follows:

Cash	100000	
First-Mortgage Bonds Payable		100000
Sale of bond issue at par.		

If the bond issue were sold for $102,000, the entry would be:

Cash	102000	
First-Mortgage Bonds Payable		100000
Premium on Bonds Issued		2000
Sale of bond issue at 102.		

If the bond issue were sold for $98,000, the entry would be:

Cash	98000	
Discount on Bonds Issued	2000	
First-Mortgage Bonds Payable		100000
Sale of bond issue at 98.		

The majority of bond issues are not sold for their face or par value, since the condition of the money market, the market rate of interest, the rate of interest which the bonds bear, and the credit of the corporation issuing the bonds cause the bonds to be sold at a premium (above par) or at a discount (below par). Par is always considered 100; a premium of 2% may be expressed as 102, and likewise a discount of 2% may be expressed as 98.

Recording the Interest on Bonds. If the interest on the bonds referred to above were payable semiannually, the entry to record the payment of interest would be as follows:

Interest on First-Mortgage Bonds Payable	2500	
Cash		2500
Semiannual interest on bonds.		

Interest on Bonds Payable is a financial expense account and is closed into the *Financial Income and Expense* account.

Sinking Fund. A sinking fund is a fund set aside for the redemption of bonds at maturity. There are two general methods of determining the amount of money which shall be set aside annually to provide for the actual redemption of the bonds. The first is the pro-rata method in which the amount of the bond issue is divided by the life of the bonds, and the resulting quotient gives the amount to be set aside each year. The second general method is based upon the fact that the interest upon the installments should be considered. The pro-rata method is used in this text.

To illustrate the use of the sinking fund, assume that it is desired to accumulate a sinking fund for the redemption of the $100,000 bond issue referred to above. The life of the bonds is twenty years, and thus the pro-rata contribution to the sinking fund is $5000. The money must be available for the redemption of the bonds, and it is accumulated by setting aside annually this amount. The journal entry to record this transaction is as follows:

Sinking Fund	5000	
Cash		5000
Periodical contribution to the sinking fund for the redemption of first-mortgage bond issue.		

At the end of twenty years the entry to record the payment of the debt is as follows:

First-Mortgage Bonds Payable	100000	
Sinking Fund		100000
Redemption of bonds from sinking fund accumulated for the purpose.		

Bond recitals frequently provide that, in addition to the security given, a sinking fund shall be accumulated for the redemption of the bonds by periodically charging the annual sinking-fund installment against the profits of the period. Such procedure is impossible of fulfillment without violation of fundamental accounting principles, since a fund is always cash or assets readily convertible into cash, and a liability cannot be paid by charging revenue. The actual effect of such a sinking-fund clause in a bond recital is to prevent all the surplus being available for dividends by reserving annually a portion

of the surplus equal to the sinking-fund installment. The annual entry to record this reservation is as follows:

Surplus	5000	
Appropriated Surplus for Sinking-Fund Requirements		5000
Annual reservation of surplus equal to sinking-fund installment.		

The entries relating to the actual fund are the same as those just illustrated. The annual entry for the accumulation of the sinking fund is to debit *Sinking Fund* and to credit *Cash*, and the entry to record the redemption of the bonds is to debit the *Bond* account and to credit *Sinking Fund.*

When the bonds are redeemed the surplus reserved is transferred to the *Surplus* account, and thus made available for dividends by the following journal entry:

Appropriated Surplus for Sinking-Fund Requirements	100000	
Surplus		100000
To transfer the amount reserved back to the *Surplus* account, the bonds having been redeemed.		

The following exercise may be used as drill in points relating to corporation bonds.

Exercise 84. Corporation Bonds

1. The Patton Manufacturing Co. authorizes the issue of $200,000 first-mortgage ten-year bonds, denomination $500, interest at 5%, payable semiannually. Make the proper journal entries to record each of the following assumptions:

a. The entire issue is sold at par.

b. The interest is paid on the bond issue for the first six months.

2. *a.* The recital in the bonds above mentioned provides for the pro-rata annual reservation of profits to insure the payment of the bonds at maturity. Required, the necessary annual entry.

b. If in addition to **2.** *a.* the recital provides for the establishment of a sinking fund, give the annual entries.

c. How would the two sinking-fund accounts and the bond account stand before the bonds are redeemed? after the bonds are redeemed?

CHAPTER XXXIX

REVENUE ACCOUNTS AND OPERATING STATEMENT OF A MANUFACTURING BUSINESS

Trial Balance. The method of compiling the revenue accounts and the operating statement for a manufacturing business is illustrated by taking data from the books of the Colby Manufacturing Co. The trial balance on Dec. 31, 19—, is as follows:

Cash	$2500	
Accounts Receivable	8976	
Reserve for Bad Debts		$800
Inventory, Finished Goods, Dec. 1	3000	
Inventory, Goods in Process, Dec. 1	5000	
Inventory, Raw Material, Dec. 1	10000	
Factory Equipment	31200	
Reserve for Depreciation, Factory Equipment		4500
Office Equipment	1440	
Reserve for Depreciation, Office Equipment		144
Unexpired Insurance	750	
Accounts Payable		4026
Accrued Taxes		100
Capital Stock		50000
Sales		20000
Mdse. Discount on Purchases		115
Raw Material Purchases	5000	
Factory Labor	9000	
Factory Rent	100	
Factory, Power, Heat, and Light	670	
Sundry Factory Expenses	45	
Repairs to Factory Equipment	85	
Salesmen's Salaries	750	
Salesmen's Expenses	300	
Advertising	350	
Sundry Sales Department Expense	150	
Office Salaries	200	
Office Supplies	14	
Office Heat and Light	10	
Sundry Office Expense	15	
Mdse. Discount on Sales	130	
	$79685	$79685

Notations:

Estimated taxes for the month, $50.
Insurance for the month, $30.
Reserve 1% of sales for bad debts.
Depreciation on factory equipment, 10% per year.
Depreciation on office equipment, 5% per year.
Inventory, Finished Goods, Dec. 31, $3250.
Inventory, Goods in Process, Dec. 31, $5250.
Inventory, Raw Material, Dec. 31, $9000.

The entries to record the taxes, insurance, bad debts, and depreciation charges are as follows:

Taxes	50	
Accrued Taxes		50
To charge operating expenses with the month's share of estimated taxes.		
Insurance	30	
Unexpired Insurance		30
Portion of insurance chargeable to December.		
Bad Debts	200	
Reserve for Bad Debts		200
To reserve 1% of sales for anticipated loss from bad debts.		
Depreciation, Factory	260	
Reserve for Depreciation, Factory Equipment		260
Portion of depreciation on factory chargeable to December.		
Depreciation, Office	6	
Reserve for Depreciation, Office Equipment		6
Portion of depreciation chargeable to December.		

Entries which record the charges for such items as taxes, insurance, bad debts, and depreciation are sometimes called *adjusting entries*. The data for calculating these charges are usually stated in the notations, supplementary to the trial balance. The adjusting journal entries should be posted to the ledger before the closing journal entries are made.

Revenue Accounts. Since this is a manufacturing business, the revenue accounts include a *Manufacturing* account. The entries necessary to place the proper revenue accounts upon the books of the Colby Manufacturing Co. are as follows:

Manufacturing	33240	
Inventory, Finished Goods		3000
Inventory, Goods in Process		5000
Inventory, Raw Materials		10000
Raw Material Purchases		5000
Factory Labor		9000
Factory Rent		100
Factory Power, Heat, and Light		670
Taxes		50
Insurance		30
Depreciation, Factory		260
Sundry Factory Expenses		45
Repairs to Factory Equipment		85
To close these accounts into the *Manufacturing* account.		
Inventory, Finished Goods	3250	
Inventory, Goods in Process	5250	
Inventory, Raw Materials	9000	
Manufacturing		17500
To credit the *Manufacturing* account with the inventories on hand at the end of the month by placing them upon the ledger.		
Trading	15740	
Manufacturing		15740
To transfer the balance of the *Manufacturing* account, representing the cost of goods sold, to the *Trading* account.		
Trading	1750	
Salesmen's Salaries		750
Salesmen's Expenses		300
Advertising		350
Bad Debts		200
Sundry-Sales Department Expenses		150
To close these accounts into the *Trading* account.		

Sales	20000	
Trading		20000
To close this account into the *Trading* account.		
Trading	2510	
Administration		2510
To transfer the balance of the *Trading* account, representing trading profit, to the *Administration* account.		
Administration	245	
Office Salaries		200
Office Supplies		14
Office Heat and Light		10
Depreciation, Office		6
Sundry Office Expenses		15
To close these accounts into the *Administration* account.		
Administration	2265	
Appropriation		2265
To transfer the balance of the *Administration* account, representing net operating profit, to the *Appropriation* account.		
Mdse. Discount on Purchases	115	
Financial Income and Expense		115
To close this financial income account.		
Financial Income and Expense	130	
Mdse. Discount on Sales		130
To close this financial expense account.		
Appropriation	15	
Financial Income and Expense		15
To close this account, representing net financial loss.		
Appropriation	2250	
Surplus		2250
To transfer the net profit of the month to the *Surplus* account.		

If the *Appropriation* account shows a debit balance, a net loss occurs, and this last entry is reversed.

Operating Statement. The operating statement which would be compiled from the technical revenue accounts appears as follows:

Colby Manufacturing Company

OPERATING STATEMENT

For the month of December, 19—

Sales			$20000
Cost of production:			
Raw Material:			
Inventory, Dec. 1	$10000		
Purchases	5000		
	$15000		
Inventory, Dec. 31	9000	$6000	
Factory Labor		9000	
Factory Rent		100	
Factory Power, Heat, and Light		670	
Taxes		50	
Insurance		30	
Depreciation, Factory		260	
Sundry Factory Expenses		45	
Repairs to Factory Equipment		85	
		$16240	
Goods in Process, Dec. 31	$5250		
Goods in Process, Dec. 1	5000	250	
Cost of goods made		$15990	
Deduct:			
Finished Goods, Dec. 31	$3250		
Finished Goods, Dec. 1	3000	250	
Cost of goods sold			15740
Gross profit on sales			$4260
Trading expenses:			
Salesmen's Salaries		$750	
Salesmen's Expenses		300	
Advertising		350	
Bad Debts		200	
Sundry Sales Department Expense		150	1750
Trading profit			$2510
Administrative expenses:			
Office Salaries		$200	
Office Supplies		14	
Office Heat and Light		10	
Depreciation, Office		6	
Sundry Office Expense		15	245
Net operating profit			$2265

Deduct: Financial Expense		$2265
Mdse. Discount on Sales	$130	
Add: Financial Income		
Mdse. Discount on Purchases	115	15
Net profit for December		$2250

Exercise 85 is suggested for a drill in compiling the revenue accounts and operating statement of a manufacturing business.

Exercise 85. Manufacturing Revenue Accounts and Operating Statement

1. *a.* On sheets of ledger paper open the accounts necessary for recording the preceding trial balance data and for posting the closing entries.

b. Prepare a financial statement from the ledger of the Colby Manufacturing Co., as obtained in *a.*

2. The following is the trial balance of Wiles & Co. on Dec. 31, 19—:

Common Capital Stock		$175000
Preferred Capital Stock		50000
Sales		725000
Mdse. Discount on Purchases		500
Accounts Payable		22500
Purchases	$225000	
Wages	375000	
Inventory, Jan. 1	100000	
Cash on hand	6125	
Office Expenses	1750	
Office Salaries	2800	
Buildings and Fixtures	25000	
Machinery	69500	
Furniture and Furnishings	1500	
Taxes	500	
Unexpired Insurance	500	
Mdse. Discount on Sales	4075	
Sales Commissions Paid	36250	
Accounts Receivable	125000	
	$973000	$973000

Notations:

Inventory, Dec. 31, $107,500.
Depreciation on buildings and fixtures, $2\frac{1}{2}\%$ per year.
Depreciation on machinery, 5% per year.
Depreciation on furniture and furnishings, 5% per year.
Reserve $1\frac{1}{2}\%$ of sales for bad debts.
Accrued wages, $1500.
Insurance for the year, $350.

a. Prepare the revenue accounts and operating statement.

b. Give the journal entries necessary to record the declaration of a 7% dividend on the preferred stock and a 10% dividend on the common stock.

3. The following figures are taken from the books of the Warner Manufacturing Co. on Dec. 31, 19—:

Inventories, first of year:		
Finished Goods	$5750	
Goods in Process	10245	
Raw Material	15725	
Raw Material Purchases	75630	
Factory Wages	115915	
Rent of Factory Building	12000	
Factory Heat, Light, and Power	9135	
Office Heat and Light	210	
Packing Supplies, Used	2017	
Sundry Factory Expense	3575	
Machinery and Equipment	45700	
Salesmen's Salaries	20115	
Salesmen's Expenses	10547	
Sales		$313300
Interest Paid	415	
Notes Payable		1500
Trade Acceptances Receivable	6270	
Sundry Sales Expense	1870	
Advertising	6540	
Office Salaries	3250	
Officers' Salaries	4800	
Good Will	10000	
Sundry Office Expense	6825	
Cash on hand and on deposit	4768	
Returned Sales	3758	
Accounts Receivable	30260	
Accounts Payable		15360
Reserve for Depreciation, Machinery and Equipment		5780
Reserve for Bad Debts		4827
Office Furniture and Furnishings	3050	
Reserve for Depreciation, Office Furniture and Furnishings		215
Mdse. Discount on Purchases		1560
Mdse. Discount on Sales	2485	
Capital Stock		65000
Surplus		3313
	$410855	$410855

Notations:

Inventories, end of year:

Finished Goods	$7890
Goods in Process	15480
Raw Materials	8745

Reserve 10% for depreciation on machinery and equipment.
Reserve 5% for depreciation on office furniture and furnishings.
Reserve 1% for bad debts.

a. Prepare the revenue accounts.

b. Prepare the operating statement.

CHAPTER XL

SET IX. CHAIR-MANUFACTURING BUSINESS

THE VOUCHER SYSTEM

General Principles. The purchase of commodities may be recorded according to one of two general plans, — the use of the purchase book and the use of the voucher system. The purchase book has been used in previous sets, and in this set the voucher system will be described, illustrated, and used to record the commodities purchased.

No.__________

Madison Chair Co.

To____________________________Dr., Madison, Wis.,______________19__

Date	Description of Purchase	Items	Amount

Extension and distribution verified by — Bookkeeper

Goods received " " — Receiving Clerk

Prices " " — Purchasing Agent

Approved for payment

General Manager

FACE OF VOUCHER

The voucher system derives its name from a special form of an abstract of the invoice, sometimes combined with an affidavit, receipt, or check, which is issued for purchases, and perhaps for other expenses of the business.

The general principles of the system are so susceptible of modifications that the details in use by different companies even in the same industry may differ materially. In each case the content of the printed voucher form, the expenses for which vouchers are issued, the signatures required to validate the voucher, and the methods of numbering and filing the vouchers may vary without violating the general principles

underlying the system. It is an excellent illustration of the fact that each business should have an accounting system which is best adapted to its particular conditions, and which enables one to obtain the greatest amount of information with the minimum of effort. In this set vouchers are issued only for material purchases.

The Voucher. As soon as any invoice or bill has been received and audited, a voucher, usually consecutively numbered, is issued for the transaction. The face of the voucher is simply an abstract of the invoice or bill, and it usually provides for the approval by signature of the proper officials of the company. Thus the bookkeeper may certify to the accuracy of the extensions of the bill, the receiving clerk to the receipt of the goods, the purchasing agent to the unit prices, and the auditor or other official may approve the voucher for payment. The illustration on the preceding page shows the face of a voucher form.

Voucher No.______

Date______

To______

$______

✓	Account Debited	Amount
	Lumber	
	Veneer	
	Hardware	
	Cane	
	Upholstering	
	Finishing Materials	
	Packing Supplies	
	Sundry Factory Supplies	
	Total	

BACK OF VOUCHER

The back of the voucher generally contains space for the number, the date, the name of the creditor, the amount, the names of the accounts to which the voucher may be charged, and the distribution of the particular voucher among such accounts. These data are so arranged that when the voucher is folded all pertinent data appear on one side of the folded sheet. The accompanying illustration shows the data printed on the back of the voucher form, the face of which was just shown.

The voucher form described is sometimes called a voucher jacket, on the theory that the invoice or other evidence of the expense may be attached to the inside of the voucher and filed with it. Supporting papers are generally filed according to the number of the voucher, the name of the creditor, or the purpose of the expense.

Different Forms of Vouchers. Affidavits, receipts, or checks may be printed on the same sheet as the voucher. For example, the voucher in use by many governmental departments provides space for the affidavit of the vendor.

Receipt forms are often printed upon the voucher so that the vendor may fill in the spaces when payment is made, and return the voucher to the issuing company for filing. The following illustration shows the ruling of the face of a voucher combined with a receipt blank. The back of the form might be ruled the same as the one already illustrated.

Madison Chair Company No.________

To____________________Dr., Madison, Wis.,____________19__

Date		Description of Purchase	Items		Amount	

Account verified by

Auditor

Approved for payment

President

____________________19__

Received of Madison Chair Company

$__________

______________________________Dollars

In full for the above account

VOUCHER AND RECEIPT

The most common form of a voucher is in some particular combination with the check issued in payment of the account. The check may be printed upon the back of the voucher itself, or it may be printed upon a perforated blank which may be detached by the payee before being deposited. If the check is printed upon the back of the voucher, the latter is folded lengthwise, with the check on one side and space for the indorsements on the other. The folded voucher check is deposited by the payee and in due time it is filed in the office of the drawer of the check, the best possible evidence of the payment of the account stated in the voucher. Under this arrangement the distribution of the amounts on the back of the voucher is usually left off the voucher itself, but the necessary data appear upon the stub of the voucher retained in the office of the payer. The combined voucher checks and the stubs may be bound together in the form of a voucher book, or blocked together in pads. In the latter case the stubs are generally filed according to number and thus made available for quick reference.

The check which is printed upon a perforated portion of the voucher may be attached to the voucher and sent to the payee, in which case the payee returns the voucher itself to the drawer of the check; or it may be detached from the voucher blank in the office of the maker before the remittance is made, and the folded voucher filed away for permanent reference. Variations as to the exact procedure followed may be found in different offices.

Another form of a voucher check frequently used is a check containing a memorandum statement regarding the purpose of the remittance. The following illustration is suggestive of this form of a voucher check.

Voucher No.________ This check is given in settlement of our account as follows:			*The Union Bank*
Your statement Invoices			________________ *19*__
Distribution			*Pay to the order of*________________ *$*______
Cash Discount			________________________ *Dollars*
Net			____________________
If incorrect, return without alterations. Your indorsement will be considered a receipt for amount as stated.			*Check No.*________

VOUCHER CHECK

Size of Vouchers. In 1909, as a result of a meeting of committees representing the American Bankers Association, the American Association of Public Accountants, the Society of Railway Financial Officers, and the Association of Railway Accounting Officers called to reach an agreement regarding a standard uniform voucher check, three resolutions were passed. These resolutions are quoted in full from the *Journal of Accountancy* for February, 1909 (Vol. VII, p. 329), since the decision of such a representative group of business men should be given careful thought by any person who may wish to design a special voucher check.

UNIFORM BANK VOUCHER CHECK

Resolution No. 1. Negotiability

That it is the sense of this meeting that the voucher check be made in negotiable form.

Resolution No. 2. Form

That it is the sense of this meeting that a voucher check should be in the form of a straight check or draft, and indorsement of the payee thereon be accepted as the only receipt required.

Resolution No. 3. General Requirement

That it is the sense of this meeting that the check voucher should be of the standard check size and in the standard draft form, with the number, date, amount, and signature at the right end in the order named, and the name of the payer (Bank or Treasurer of Company) in the lower left corner, and that where a folded voucher is considered necessary by railroad companies, it should fold to standard check size, the check or draft to be at the bottom.

That when a detachable check is used, it should be in the standard form described above.

The conference committee further recommended the following general characteristics:

Number, Date, Amount, Signature

We believe that the number, the date, the amount, and the signature should all be in evidence on the right-hand side of the check.

Paper

That the paper of the original should be of good quality and that the paper of the copy should be of a different color, to distinguish it easily, and may be of inferior quality.

Advertising Business Cards

That no advertising or business cards should be placed upon the check form which may tend to confuse or blind the party handling the check or cause important details of the check to be obscured.

Size

The size of the check or draft form should be from 3 inches to 3½ inches wide by 8½ inches long, and folded vouchers of whatever size should readily fold to the same dimensions, and thus adapt themselves to all ordinary check files. Checks narrower, wider, or longer than these dimensions are objectionable.

Note. The railroads make the voucher referred to above in duplicate, and designate it the "copy."

Filing Vouchers. Paid vouchers are filed separately from the unpaid vouchers. The unpaid vouchers therefore become the accounts payable of the company, but in the voucher system the *Accounts Payable* account is generally referred to as the *Vouchers Payable* account.

Journal Vouchers. While the subject of vouchers is being considered, attention should be called to the use of the *journal voucher.*

In many business offices the use of specialized books of original entry has so lessened the use of the journal that it is seldom kept as

a bound book. Its use is limited practically to the opening and the closing entries, the adjustments and the transfers, and, in general, to entries which cannot be entered in any other book of original entry.

All entries recorded in the journal may be entered on journal vouchers, which are generally approved by the bookkeeper as to accuracy and by the proper official as to authenticity. Such journal vouchers may be attached to any documents supporting the entry, or they may be folded and filed numerically, or they may be placed in a loose-leaf binder.

In some cases the journal voucher and the usual expense voucher are combined, and the voucher register (see page 455) is ruled to accommodate not only expenses but also the usual journal entries.

PRELIMINARY EXPLANATIONS

Object of the Set. The object of this set is to illustrate the use of the voucher system and the imprest method of handling petty cash.

Books Used. The books used in this set are the journal, the cashbook, the petty cashbook, the voucher register, the sales book, the general ledger, the customers' ledger, and the creditors' ledger.

Journal. The journal in this set is the same as that used in previous sets.

Cashbook. The cashbook used in this set is essentially the same as that used in Set VIII, the only changes being that the column formerly called *Accounts Payable* is now termed *Vouchers Payable.*

Both *Accounts Receivable* and *Vouchers Payable* are controlling accounts, controlling the customers' ledger and the creditors' ledger, respectively.

Voucher No.	Date		F.	Names	Addresses	Terms
1	Feb.	2	27	Merrill & Co.	Chicago	6/10, net 30 da.
2		4	28	Fleming & Deming	St. Louis	2/15, 60 da. net
3		4	24	Gray & Dunckle	Sheboygan	30 da. net
4		2	33	Brown & Son	Cleveland	2/10, net 30 da.
5		5	27	Merrill & Co.	Chicago	6/10, net 30 da.
6		9	32	C. W. Hall	Chicago	2/10, net 30 da.
7		12	34	Coates & Son	Milwaukee	2/10, 1/30, net 60 da.
8		18	35	Bender & Hill	New York	1/10, net 30 da.
9		17	26	C. H. Shaw Co.	Memphis	2/15, 60 da. net

MODEL VOUCHER

In this set it will be necessary to forward the totals of the cashbook columns to a second page. On the last line of the first page write *Carried Forward* opposite the columnar totals, and on the first line of the second page write *Brought Forward* and insert the totals in the proper columns.

Petty Cashbook. The petty cashbook used in this set is kept upon the imprest cash system. The entries for disbursements are made in the same manner as was followed in Set VIII for petty-cashbook entries, but the postings are made from the book in a different manner. The closing of the petty cashbook is described on page 464.

The Voucher Register. The data contained on a voucher are copied into a book of original entry called the voucher register. The form of the voucher register used in this set is illustrated below.

If vouchers are issued for only those expenses which, in previous sets, were recorded in the purchase book, the voucher register corresponds to the purchase book. In case vouchers are issued for all expenses (materials, labor, and all other expenses excepting petty cash), the use of the two books is not identical, since more transactions are recorded in the voucher register than in the purchase book.

The voucher register is provided with columns which allow for the same distribution of the vouched amounts as may be recorded on the back of the voucher or on the voucher stub. When the voucher register is closed, the *Vouchers Payable* account is credited with the sum of all the amounts entered in the *Amount* column, and the several accounts with materials are debited with the totals of the respective columns; this is similar to the use of the purchase book in Set VIII.

Amount		Lumber		Veneer		Hardware		Cane		Upholstering		Finishing Materials		Packing Supplies		Sundry Factory Supplies	
387	25											387	25				
976	48	976	48														
362	68													362	68		
265	12					265	12										
294	39											294	39				
179	42			179	42												
647	21									647	21						
110	50							110	50								
843	92	843	92														
4066	97	1820	40	179	42	265	12	110	50	647	21	681	64	362	68		
8		3		3		4		4		4		5		5			

REGISTER, SET IX

The voucher register well illustrates the use of special columns in a book of original entry for analyzing in detail the entries made therein, and for obtaining the totals to post to the ledger.

Every voucher must be recorded in a voucher register immediately after it is made out, and the voucher record should therefore be in the same numerical sequence as the vouchers issued. This is a most important point, since an orderly arrangement enables the rapid location of any particular voucher record as well as the rapid checking of all vouchers listed.

Postings are made from the voucher register to the individual creditor's accounts in the creditors' ledger, and the footing of the *Amount* column is posted to the credit of the *Vouchers Payable* account in the general ledger.

Sales Book. The sales book used in this set is ruled for recording the sales made to customers in total rather than in detail.

In using the business forms as would be done in practice, the detail of each sale is recorded on a sales invoice and a summary thereof is recorded in the sales book and posted to the customer's account. In this set the orders sent in by traveling salesmen are entered in total on the sales invoices. The sales invoices are usually made in duplicate, one copy going to the customer. In this set sales invoices will not be sent to customers. The copy made by the student will be used for obtaining the sales-book data and then will be filed under the customer's name. In some concerns the copies of the sales invoices are filed consecutively in a binder, and the amounts are posted to the customers' accounts directly from the duplicates.

The total of the *Amount* column of the sales book is debited to *Accounts Receivable* and credited to *Sales.*

Ledgers. The ledgers are the same as those used in Set VIII. The customers' ledger corresponds to the sales ledger, and the creditors' ledger corresponds to the purchase ledger.

Price Lists. For the purpose of detail work in this illustrative manufacturing set, the items in the price list on the opposite page are selected from the different kinds of chairs made by the Madison Chair Co.

Business Forms. Some instructors may desire to use business forms with this set. An envelope, separate from the text, has been prepared for that purpose. This envelope contains blank voucher forms, sales invoices, checks, and petty-cash receipts, as well as a filing envelope.

The text contains all material and instruction necessary for writing the entire set, but the use of these forms is suggested as affording drill in handling modern forms.

SELLING PRICE LIST, SET IX

No.	Description	Price per Dozen
25	Stools	$20
26	White Enamel Stools	24
50	Child's Chair	6
57	Child's High Chair	12
100	Bowback Kitchen Chair	7
200	Box-Seat Diner	22
201	Armed Box-Seat Diner	30
240	Cane-Seat Diner	28
312	Bedroom Chair	24
313	Bedroom Rocker	30
324	White Enamel Bedroom Chair	27
325	White Enamel Bedroom Rocker	33
404	Large Wood-Seat Arm Rocker	42
465	Upholstered Rockers	240
510	Office Desk Chair	42
621	Solid Mahogany Straight Chair	324
622	Solid Mahogany Office Desk Chair	348

If business forms are used, observe the following instructions:

Vouchers. The student, as bookkeeper, should make out the vouchers, face and back, for all merchandise purchases, and attest the accuracy of the amount and the distribution by placing his initials in the appropriate space. The approval of the other employees will not be obtained in this set. The vouchers should be numbered consecutively and placed in that order in the filing envelope under *Vouchers Payable.* As paid, the vouchers should be filed numerically in the *Paid Vouchers* section of the filing envelope.

The appropriate data from the voucher should be entered in the voucher register.

Sales Invoices. As stated on the preceding page, sales invoices will not be sent to customers in this set. The copy of the sales invoice made by the student is assumed to be the retained copy, and is used for obtaining the sales-book data and then is filed under the customer's name in the *Sales Invoices* section of the filing envelope.

Checks. A bank account is not kept in this set, but all cash receipts are assumed to be deposited in the bank daily, and all payments except petty-cash disbursements are to be made by checks. Loose checks are provided for this purpose. If the check is not given in payment of an invoice or a voucher, the purpose of the disbursement should be written

in the space provided for *Invoice.* All checks should be numbered consecutively, and those issued in payment of vouchers should also bear the appropriate voucher number. All checks should be signed *Madison Chair Co., per Student.* Checks issued should be filed numerically in the *Checks Issued* section of the filing envelope.

Petty Cash Receipts. Receipts should be obtained for all disbursements made from the petty-cash fund. The receipts should be signed by the instructor acting for the designated person to whom cash payment is made. Petty-cash receipts should be filed according to date in the appropriate section of the filing envelope.

Where the transactions call for the use of any of these forms, the student is expected to fill out the proper form in the regular way and file it according to the directions given.

If business forms are not used, observe the following instructions:

Vouchers. The appropriate data from the invoices should be entered directly in the voucher register. The amount of the invoice should be obtained by figuring extensions and totals on sheets of paper.

Sales Invoices. The appropriate data relative to each sale should be entered directly in the sales book. The amount of the sale should be obtained by figuring extensions and totals on sheets of paper.

Checks. A bank account is not kept in this set, but all cash receipts are assumed to be deposited in the bank daily, and all payments except petty-cash disbursements are assumed to be made by check. Make the usual cashbook entries for both receipts and payments.

Petty Cash Receipts. Make the regular petty cashbook entry for all payments from this fund.

WORK FOR FEBRUARY

Opening the Set. In this set the student will act as bookkeeper for the Madison Chair Co. The salary is to be $80 per month.

MEMORANDA OF TRANSACTIONS FOR FEBRUARY

February 1

Under the laws of the state of Wisconsin, George Clark, F. M. Williams, E. M. Hadley, W. R. Wood, F. W. Kramer, all of Madison, Wis., and John R. Inman of Sheboygan, Wis., have formed a corporation, the Madison Chair Co., for the purpose of purchasing and operating the business of the Baker Chair Co., manufacturers of a general line of chairs. A charter has been obtained. The authorized capital stock is $100,000, divided into 1000 shares of the par value of $100 each. Subscription to

the capital stock of the company is as follows: George Clark, 175 shares; F. M. Williams, 175 shares; E. M. Hadley, 175 shares; F. W. Kramer, 175 shares; W. R. Wood, 175 shares; John R. Inman, 125 shares.

At the stockholders' meeting each of the above-named persons was elected as a director of the company for one year. At a meeting of the board of directors the following officers were elected: George Clark, president; John H. Inman, vice president and general manager; F. M. Williams, secretary and treasurer.

The president and secretary-treasurer were each to receive a salary of $150 per month; the vice president and general manager, $250 per month.

The following summary of the above memoranda is to be copied in the journal:

Feb. 1, 19—

Under the laws of the state of Wisconsin, a corporation, the Madison Chair Co., has been formed for the purpose of purchasing and operating the business of the Baker Chair Co., manufacturers of a general line of chairs. The authorized capital stock of the Madison Chair Co. is $100,000.

NOTE. The names of subscribers and incorporators, the number of shares subscribed, the names of directors and officers, and the salaries to be paid the officers would appear in the appropriate stock books. The stock books of the Madison Chair Co. are not kept in this illustrative set.

Make a journal entry to debit *Subscription* and to credit *Capital Stock.*

The student designs the following classification of accounts for the Madison Chair Co.:

ASSETS

- Current:
  - Cash
  - Petty Cash
  - Accounts Receivable:
    - Reserve for Bad Debts (valuation account)
  - Inventories:
    - Finished Goods
    - Goods in Process
    - Materials:
      - Lumber
      - Veneer
      - Hardware
      - Cane
      - Upholstering
      - Finishing Materials
      - Packing Supplies
      - Sundry Factory Supplies
  - Subscriptions

Fixed:
- Real Estate
- Buildings
  - Reserve for Depreciation, Buildings (valuation account)
- Machinery and Equipment
  - Reserve for Depreciation, Machinery and Equipment (valuation account)
- Automobile Truck
  - Reserve for Depreciation, Automobile Truck (valuation account)

Deferred:
- Unexpired Insurance
- Fuel on hand
- Office Supplies on hand
- Organization Expense

Liabilities

Current:
- Notes Payable
- Vouchers Payable

Accrued:
- Accrued Taxes
- Accrued Expenses

Proprietary Interest

Capital Stock

Surplus

Revenue Accounts:
- Manufacturing
- Trading
- Administration
- Financial Income and Expense
- Appropriation

Suspense:
- Baker Chair Company

Income

Operating:
- Sales

Nonoperating:
- Merchandise Discount on Purchases

EXPENSE

Operating:
  Manufacturing:
    Factory Labor
    Factory Superintendence
    Heat, Light, and Power
    Insurance
    Taxes
    Depreciation
    Repairs to Machinery and Equipment
    Repairs to Buildings
    Sundry Factory Expense

  Trading:
    Salesmen's Salaries
    Salesmen's Expenses
    Cartage Outward
    Advertising
    Bad Debts

  Administration:
    Officers' Salaries
    Office Salaries
    Office Supplies, Used
    Postage
    Telephone and Telegrams
    Sundry Office Expense
    Organization Expense Written Off

Nonoperating:
  Merchandise Discount on Sales
  Interest Paid

NOTE 1. Allow one third of a page for each of the material accounts, and one fifth of a page for each of the other general ledger accounts. Do not open accounts for the following names of account groupings: Current, Inventories, Materials, Fixed, Deferred, Current, Accrued, Revenue Accounts, Suspense, Operating, Nonoperating, Operating, Manufacturing, Trading, Administration, and Nonoperating.

NOTE 2. *Upholstering* includes tapestry, leather, imitation leather, and filling materials; *Finishing Materials* include varnish, paint, and stain; *Sundry Factory Supplies* include oils, waste, small tools, and other supplies consumable in the operation of a factory.

Each stockholder has paid for his subscription by check.

Credit *Subscription* in the cashbook.

Draw a cash check for $50, for use as an imprest fund.

If forms are used, refer to the instructions given under *Checks* on page 457.

The $50 is to be entered in the petty cashbook. See the first entry in the model petty cashbook, page 464.

February 2

The manufacturing plant of the Baker Chair Co. is purchased at the following figures:

Real Estate, $1000
Buildings, $15,000
Machinery and Equipment, $25,000
Unexpired Insurance, $450
Fuel on hand, $240
Finished Goods, ready for market, $25,000
Goods in Process, through the factory, $35,000

Materials on hand:
Lumber, $15,000
Veneer, $300
Hardware, $1000
Cane, $1000
Upholstering, $2000
Finishing Materials, $1000
Packing Supplies, $750
Sundry Factory Supplies, $2000

Make a journal entry debiting the above assets and crediting *Baker Chair Co.*

Give the Baker Chair Co. a check in payment of the plant and the contents purchased from them.

February 3

S. B. Hardy and F. M. Kinney have been employed as traveling salesmen. Each is to receive a salary of $150 per month and traveling expenses.

Advance each of the traveling salesmen a check for expenses, $150.

Mr. A. C. Parker, attorney, was the legal adviser of the company at the time of incorporation. Give him a check for $100 for his services.

Debit *Organization Expense.*

The company has taken out an additional insurance policy with the Niagara Insurance Co. for $5000. Owing to the location of the factory and the combustible material used, the rate of insurance is $20 per thousand.

Give the agent of the Niagara Insurance Co., C. W. Walker, a check for the amount of the premium at the rate named.

Purchase an automobile truck from the General Car Co. for $1500. Issue a check in payment.

February 5

Give Connor & Co. a check for $32.50 in payment of their bill for a set of office books.

Debit *Office Supplies on hand.*

Pay Fuller & Co. $10 in cash for office stationery.

Enter this item in the petty cashbook under *Office Supplies on hand.* Refer to the model on page 464.

NOTE. If forms are used, refer to the instructions given under Petty Cash Receipts on page 458. Items that are entered in the petty cashbook are not recorded in the regular cashbook until the petty cashbook is closed. This will be explained at the end of the week.

Buy $5 worth of postage stamps and pay cash for them.

Pay Thos. Lottridge $5.80 in cash for carpenter work in repairing the office.

Enter in the petty cashbook under *Repairs to Buildings.*

Sell Wm. Lane, City, for cash, 1 doz. chairs, #100, $7. A discount of 2% is allowed.

If forms are used, refer to the instructions given under Sales Invoices on page 457.

February 6

The following goods have been received:

1. Invoice of veneer from Wisconsin Veneer Co., Three Rivers, Wis., dated Feb. 3. Terms: 2/10, net 30 da. Items as follows:

79 No. 4404 — $17 \times 16\frac{1}{2} \times \frac{3}{16}$ — Q.O. 1/s seats, 29¢
676 No. 3456 — $18 \times 17 \times \frac{3}{16}$ — Q.O. 1/s seats, 34¢
56 No. 4404 — $17 \times 16\frac{1}{2} \times \frac{3}{16}$ — Birch seats, $11\frac{1}{4}$¢

The unit price is *per seat.*

2. Invoice of upholstering material from Allen & Co., Milwaukee, Wis., dated Feb. 3. Terms: 2/10, net 60 da. Items as follows:

2 rolls color 18 Spanish drill, 98 ft., 33¢

3. Invoice of packing supplies from Sommers & Co., Chicago, Ill., dated Feb. 3. Terms: 60 da. net. Items as follows:

2 coils, 192# — 176#, Plymouth Dry Sisal, 368#, $19\frac{1}{2}$¢

The appropriate data on each invoice are to be entered in the voucher register. Refer to the model voucher register on pages 454 and 455. If business forms are used, refer to the instructions on page 457 for making out the voucher.

Issue a check to the Chicago and Northwestern Ry. Co. for the freight on these materials, $2.61.

This charge is distributed as follows: *Veneer,* $1.30; *Upholstering,* 45¢; *Packing Supplies,* 86¢.

The following orders have been received and filled. Terms: 2/30, net 60 da., f.o.b., Madison, Wis.

W. R. Kelley, Palmer:

1 doz. #200
$\frac{1}{12}$ doz. #201
$\frac{3}{12}$ doz. #324
$\frac{1}{12}$ doz. #465

D. D. Miller, Reading:

1 doz. #25
$\frac{6}{12}$ doz. #57
$\frac{2}{12}$ doz. #404
$\frac{1}{12}$ doz. #622

H. S. Blower, Moberly:

$\frac{3}{12}$ doz. #312
$\frac{1}{12}$ doz. #313
$\frac{1}{12}$ doz. #325
1 doz. #240

S. D. Merrill, Canton:

1 doz. #50
2 doz. #100
$\frac{1}{12}$ doz. #313
$\frac{2}{12}$ doz. #621

A. C. Cotton, La Crosse:

3 doz. #100
$\frac{6}{12}$ doz. #200
$\frac{1}{12}$ doz. #201
1 doz. #240
$\frac{2}{12}$ doz. #324
$\frac{2}{12}$ doz. #325

D. M. Heath, Winona:

4 doz. #25
1 doz. #26
4 doz. #240
1 doz. #404
$\frac{2}{12}$ doz. #465
$\frac{6}{12}$ doz. #510

Enter the three petty-cash-disbursement items in the cashbook and draw a cash check for their sum. Cash the check, and place the money in the petty-cash fund. Check all items transferred.

Closing the Petty Cashbook. The following model illustrates the manner in which the petty cashbook, as used in this set, is closed.

Feb.	1		Withdrew for fund		50			
	5	√	Office Supplies on hand	Office Stationery			5	
	5	√	Postage				8	
	5	√	Repairs to Buildings	Carpenter Work			9	
	6		Check		22			
	6		*Balance*				*50*	
					72		72	
Feb.	8		Balance	Brought Forward	50			

The cashier must at all times have on hand money or receipts totaling the amount of the petty-cash fund. In order to bring back the petty-cash fund to its original amount, a check is drawn when the receipts for petty-cash disbursements are presented.

This method of handling petty cash is called the *imprest system.* It is to be distinguished from the method used in Set VIII in that postings are not made from the petty cashbook. One check is drawn for the total petty disbursements for the period, and the amount of the fund does not increase beyond the stated amount.

Close the petty cashbook according to this method.

None of the other books are to be closed, but the amounts are to be posted to the different ledgers.

Allow one fifth of a page for each account in both the creditors' and the customers' ledger.

Post to the general ledger all the items in the *General* column of the main cashbook; post all items from the sales book to the customers' ledger; post all items in the *Amount* column of the voucher register to the credit side of the creditors' ledger.

This concludes the work for one week.

February 8

The following goods have been received:

1. Invoice of hardware from Furniture Spring Co., Kenosha, Wis., dated Feb. 5. Terms: 2/10, net 30 da. Items as follows:

335 lb.	
415 lb.	
485 lb.	
355 lb.	
300 lb.	
160 lb.	
2050 lb.	$7

The unit price is *per hundred pounds.*

2. Invoice of finishing materials from United Varnish Co., Chicago, Ill., dated Feb. 6. Terms: 6/10, net 30 da. Items as follows:

5 bbl., 260 gal., Dipping	$0.60
4 bbl., 205 gal., Pale Flowing Varnish	1.10
1 bbl., 50 gal., White Maple Undercoat	1.50

If forms are used, make out the vouchers according to the directions already given.

Issue a check to the Chicago, Milwaukee and St. Paul Ry. Co. for freight on these invoices, \$4.27.

This charge is distributed as follows: *Hardware*, \$2.86; *Finishing Material*, \$1.41.

Sell Geo. Provo, for cash, 1 doz. #240, \$28. The regular discount of 2% is allowed.

February 9

Remit checks in payment of Voucher Nos. 1 and 2, less discount.

NOTE. If forms are used, the appropriate spaces on the voucher check relative to the voucher should be filled out. In making out a voucher check for Voucher No. 1, for example, the following spaces would be filled in with the data stated in parenthesis: Voucher No. (1); Invoices (Feb. 3, \$259.05); Distribution (Veneer); Cash Discount (2/10, \$5.18); Net (\$253.87). Other spaces on the form should be filled out in the usual way.

Pay 50¢ in cash for a telegram sent to S. B. Hardy.

The following orders have been received and filled. Terms: 2/30, net 60 da.

E. T. Fuller, Leland:

4 doz. #100	$\frac{6}{12}$ doz. #312
3 doz. #200	$\frac{1}{12}$ doz. #313
$\frac{6}{12}$ doz. #201	$\frac{1}{12}$ doz. #404

C. C. McClure, Beloit:

$\frac{6}{12}$ doz. #25	$\frac{1}{12}$ doz. #312
$\frac{3}{12}$ doz. #26	$\frac{1}{12}$ doz. #313
5 doz. #100	$\frac{1}{12}$ doz. #510
1 doz. #240	$\frac{1}{12}$ doz. #622

Henry Lee, Janesville:

$\frac{6}{12}$ doz. #50	$\frac{6}{12}$ doz. #200
1 doz. #57	$\frac{1}{12}$ doz. #201
2 doz. #100	$\frac{1}{12}$ doz. #325

February 10

Issue a check to J. F. Tyrell for repairs to buildings, \$127.40.

The following orders have been received and filled. Terms: 2/30, net 60 da.

A. B. Smith, Hastings:

2 doz. #25	$\frac{3}{12}$ doz. #312
1 doz. #26	$\frac{3}{12}$ doz. #313
12 doz. #100	$\frac{3}{12}$ doz. #324
4 doz. #200	$\frac{3}{12}$ doz. #325
$\frac{8}{12}$ doz. #201	$\frac{3}{12}$ doz. #465

Geo. H. Sanford, Red Wing:

5 doz. #100	$\frac{6}{12}$ doz. #465
2 doz. #240	$\frac{2}{12}$ doz. #510
1 doz. #404	$\frac{1}{12}$ doz. #622

Terms: special, 4/10, 2/30, net 60 da.

F. M. Caswell, City:

$\frac{6}{12}$ doz. #25	2 doz. #100
$\frac{3}{12}$ doz. #26	1 doz. #200
$\frac{6}{12}$ doz. #50	$\frac{2}{12}$ doz. #201
$\frac{3}{12}$ doz. #57	$\frac{3}{12}$ doz. #404

February 11

The following orders sent in by F. M. Kinney have been filled and shipped. Terms: 2/30, net 60 da.

J. B. Washburn, Rockford, $1127.50
W. L. Merriam, Belvidere, 458.25
B. R. Leith, Elgin, 2027.75
J. B. Sampson, Aurora, 446.50

NOTE. The detail of orders sent in by salesmen are not given in this illustrative set, but the sales are to be recorded in the regular way. If forms are used, write *as per salesman's order* on each sales invoice.

February 12

The following orders sent in by S. B. Hardy have been filled and shipped. Terms: 2/30, net 60 da.

Iowa Furniture Co., Des Moines, $2489.25.
Northern Furniture Co., Fort Dodge, $781.50.
Masters & Co., Marshalltown, $1027.25.
Peterson & Co., Council Bluffs, $928.75.
Nebraska Furniture Co., Omaha, $1748.85.

February 13

Remit a check in payment of Voucher No. 4, less discount.

D. D. Miller sends his check in payment of the invoice dated Feb. 6, less discount.

The pay roll for the factory labor for the two weeks totals $1050.62. Issue a cash check for the amount and make the proper entry in the cashbook.

The Pay Roll. A form of pay roll is shown in the following illustration. These forms differ widely in different lines of business, but the important facts to be recorded are given on this model form.

Madison Chair Co.,
Madison, Wis.

PAY ROLL

Sheet No.__________

For the period ending____________________19__

No.	Name	M	T	W	T	F	S	Total Hours	Rate per Hour	Amount	Signature

PAY-ROLL SHEET

Give the engineer, Frank Dames, a check in payment of one half a month's services, $65.

Debit *Heat, Light, and Power.*

Give the truck driver, John Loring, a check in payment of one half a month's services, $40.

Debit seven eighths of this amount to *Cartage Outward.* Debit the remainder to the following accounts: *Veneer,* $1.25; *Upholstering,* 35¢; *Packing Supplies,* $1; *Hardware,* $1.25; *Finishing Material,* $1.15.

Give each of the officers a check in payment of one half a month's services, and also make out a check for yourself for one half a month's services as bookkeeper.

Debit one half the salary of the vice president and general manager to *Factory Superintendence.*

Post the week's work. Open accounts with all new names that appear in the voucher register and the sales book.

February 15

Remit check in payment of Voucher No. 5, less discount. Checks have been received from the following persons: S. D. Merrill, for the invoice of *Feb. 6*, less discount; D. M. Heath, for the invoice of *Feb. 6*, less discount.

Pay cash for sundry petty office expense items, $2.50.

The following orders have been received and filled. Terms: 2/30, net 60 da.

W. R. Kelley, Palmer:

2 doz. #200	$\frac{1}{12}$ doz. #465
2 doz. #404	$\frac{1}{12}$ doz. #621

D. D. Miller, Reading:

$\frac{3}{12}$ doz. #324	$\frac{3}{12}$ doz. #621
$\frac{3}{12}$ doz. #325	$\frac{1}{12}$ doz. #622

H. S. Blower, Moberly:

3 doz. #100	$\frac{6}{12}$ doz. #404
1 doz. #240	$\frac{1}{12}$ doz. #510

February 16

The following materials have been received:

1. Invoice of lumber from Thomas Lumber Co., St. Louis, Mo., dated Feb. 8. Terms: 2/10, 60 da., less freight. Items as follows:

14980 ft. $1\frac{1}{2}''$ No. 1 Common Quartered Red Oak	$48

The unit price is *per thousand feet.*

2. Invoice of cane from Rattan & Reed Manufacturing Co., Brooklyn, N.Y., dated Feb. 8. Terms: 1/10, net 30 da. Items as follows:

20 M ft. 6 × $4\frac{1}{2}$ Reed	$5
10 M ft. $7\frac{1}{2}$ × 5 Reed	5

3. Invoice of hardware from Cleveland Screw and Tack Co., Chicago, Ill., dated Feb. 8. Terms: 2/10, net 30 da. Items as follows:

Oval Hd. Brt. Chair Wood Screws, Bulk	
500 gro. $1\frac{1}{8}$ × 11	$1.40
100 gro. 2 × 14	2.45
25 gro. $2\frac{1}{2}$ × 14	2.65
Less $72\frac{1}{2}$%, 20%, 10%, 2%, $\frac{1}{2}$%	
Flat Hd. Brt. Wood Screws, Bulk	
200 gro. 1 × 11	1.30
200 gro. $\frac{1}{2}$ × 11	1.50
100 gro. 2 × 14	2.45
Less 75%, 20%, 10%, 2%, $\frac{1}{2}$%	

The unit price is *per gross.*

Extend the items, obtain the total list price value of each kind of screws bought, and deduct the respective trade discounts before entering in the voucher register.

Trade Discount, Explained. Trade discount is a discount allowed from the published catalogue and list price which enables a concern to change the selling price by altering the trade discount rather than

by changing the published price. Trade discount usually is deducted before the invoice cost is entered in the books. To illustrate, the list price of an article may be \$10, less a trade discount of 40%, 20%, and 10%. The actual invoice cost, the amount at which it is entered in the books, is \$4.32, obtained as follows:

List price \$10 less 40% = \$6; \$6 less 20% = \$4.80; \$4.80 less 10% = \$4.32, the selling price of the article. If the increased cost of production made it necessary to increase the selling price to \$4.56, the list price of \$10 may be retained, but the percentages of the trade discount changed to 40%, 20%, and 5%.

Issue a check to the Chicago and Northwestern Ry. Co. for freight on these shipments, \$156.19.

Debit *Thomas Lumber Co.* for the freight on the carload of lumber, \$149.27. The remainder of this charge is distributed as follows: *Cane,* \$4.76; *Hardware,* \$2.16.

February 17

The following orders have been received and filled. Terms: 2/30, net 60 da.

A. C. Cotton, La Crosse:

3 doz. #100	$\frac{1}{12}$ doz. #465
$\frac{2}{12}$ doz. #312	$\frac{1}{12}$ doz. #510
$\frac{2}{12}$ doz. #313	$\frac{1}{12}$ doz. #622

D. M. Heath, Winona:

2 doz. #25	$\frac{6}{12}$ doz. #404
$\frac{6}{12}$ doz. #57	$\frac{3}{12}$ doz. #621
1 doz. #200	$\frac{1}{12}$ doz. #622

Remit a check in payment of Voucher No. 6.

NOTE. Subtract the freight charge before ascertaining the discount.

Remit checks in payment of Vouchers Nos. 7 and 8, less discounts.

Pay J. K. Hart cash, for repairs to factory equipment, \$8.75.

February 18

Give the Home Printing Co. a check in payment of a printing bill, \$43.65.

Debit *Office Supplies on hand.*

Checks have been received from the following persons: W. R. Kelley, for the invoice of *Feb. 6,* less discount; H. S. Blower, for the invoice of *Feb. 6,* less discount.

The packing materials ordered from the Excelsior Pad Co., Appleton, Wis., have been received. The invoice is dated Feb. 15. Terms: 30 da. net. Items as follows:

7500	5 × 46 Plain Pads	$6.75
2500	5 × 80 Plain Pads	13.40
5000	5 × 40 Plain Pads	5.85
500	18 × 24 Plain Pads	13.90

The unit price is *per thousand.*

February 19

The leather ordered of the Powell Leather Co., Middletown, N.Y., has been received. The invoice is dated Feb. 10. Terms: 2/10, 1/30, net 60 da. Items as follows:

50 Hides #1 Fancy Splits Color 102, 2842 ft., 14¢
40 Hides #1 D. B. Color 102 gr. 112, 1974 ft., 19¢

The unit price is *per foot.*

Pay $4.37 for freight on this shipment, and also $1.10 for the freight on the shipment of furniture pads.

Issue one check to the Chicago and Northwestern Ry. Co. for the sum of these items.

The following orders sent in by F. B. Hardy have been filled and shipped. Terms: 2/30, net 60 da.

G. M. McHose, Cedar Rapids, $1500
W. A. Heilman, Davenport, $1350
J. B. Coffman, Rock Island, $875

February 20

Issue a check to the Eureka Coal Co. for 40 T. coal at $4.50 per ton.

F. M. Caswell pays $70.56 in full of his account.

Transfer the petty-cash accounts to the cashbook, issue a check for their sum, and close the petty cashbook.

Post the week's work.

February 23

Receive checks to apply on account from the following: J. B. Washburn, Rockford, $490; B. R. Leith, Elgin, $882.

Note the discounts for which these customers should be credited.

Issue a check to the Badger Pharmacy for sundry factory and office supplies to date $43.18.

Debit *Sundry Factory Expense*, $30.14; *Sundry Office Expense*, $13.04.

February 24

The following materials have been received:

1. Invoice of lumber from Haley & Co., Evansville, Ind., dated Feb. 12. Terms: 2/15, 60 da., less freight. Items as follows:

21,906 ft. 3″ #1 Common Quartered White Oak $65

2. Invoice of finishing materials from United Varnish Co., Chicago, dated Feb. 16. Terms: 6/10, net 30 da. Items as follows:

25 gal. Liquid Flat	$1.
95 lb. 801 Red Mahogany Stain	2.50
100 lb. 803 Brown Mahogany Stain	2.40

3. Invoice of upholstering material from Campbell & Co., Louisville, Ky., dated Feb. 17. Terms: 30 da. net. Items as follows:

3 sacks New Dark Cotton Filling
105#, 115#, 108# = 328# @ 4¢

4. Invoice of hardware from Furniture Spring Co., Kenosha, Wis., dated Feb. 18. Terms: 2/10, 30 da. net. Items as follows:

185 lb.	20″	$1\frac{1}{4}$	Drop 3 Row Slats	
176 lb.	20″	$1\frac{1}{4}$	Drop 2 Row Slats	
735 lb.	$18\frac{1}{2}$″	2	Drop 3 Row Slats	
210 lb.	20″	2	Drop 2 Row Slats	
110 lb.	$20\frac{1}{2}$″	3	Drop 3 Row Slats	
1416 lb.				$4.75

Issue a check to the Chicago, Milwaukee and St. Paul Ry. Co. for the freight on the above materials, $131.94.

Debit *Haley & Co.* with the freight on the carload of lumber, $128.04. The remainder of this charge is distributed as follows: *Finishing Material*, $1.72; *Upholstering*, 70¢; *Hardware*, $1.48.

February 25

The following orders have been received and filled. Terms: 2/30, net 60 da.

C. C. McClure, Janesville:

$\frac{2}{12}$ doz. #621	$\frac{1}{12}$ doz. #622

A. B. Smith, Hastings:

3 doz. #100	1 doz. #404
2 doz. #200	$\frac{1}{12}$ doz. #324
$\frac{4}{12}$ doz. #201	$\frac{1}{12}$ doz. #325

Geo. H. Sanford, Red Wing:

$\frac{5}{12}$ doz. #200	$\frac{1}{12}$ doz. #201

F. M. Caswell, City:

$\frac{3}{12}$ doz. #25	$\frac{1}{12}$ doz. #404
$\frac{2}{12}$ doz. #26	$\frac{1}{12}$ doz. #465
$\frac{1}{12}$ doz. #325	$\frac{1}{12}$ doz. #510

Henry Lee, Janesville:

$\frac{6}{12}$ doz. #50	$\frac{2}{12}$ doz. #404
$\frac{6}{12}$ doz. #57	$\frac{1}{12}$ doz. #510
2 doz. #100	$\frac{1}{12}$ doz. #622

February 26

The following orders sent in by F. M. Kinney have been filled and shipped. Terms: 2/30, net 60 da.

A. B. Langlie, Danville, $1748.50.
J. R. Netherwood, Decatur, $1137.28.
W. B. Munsey, Springfield, $642.87.
Wadsworth & Co., St. Louis, $3841.27.

The following materials have been received:

1. Invoice of upholstering material from the Ohio Leather Co., Cincinnati, Ohio, dated Feb. 20. Terms: 2/10, net 30 da. Items as follows:

100 seats No. 641, Spanish, 28¢

2. Invoice of hardware from the Ohio Nut Co., Cleveland, Ohio, dated Feb. 20. Terms: 1/10, net 30 da. Items as follows:

2700 special "T" Hd. Bolts, $\frac{1}{4} \times 1\frac{1}{2}$	$3.20
10200 regular "T" Hd. Shaft Bolts, $\frac{1}{4} \times 1\frac{1}{2}$	3.20
Less 60%, 5%	

The unit price is *per hundred.*
Deduct the trade discount from the sum of the two items.

Issue a check to the Chicago and Northwestern Ry. Co. for freight on these materials, $2.48.

This is distributed as follows: *Upholstering,* 74¢; *Hardware,* $1.74.

Pay Vouchers Nos. 11 and 12, less discounts.

Discount the company's 30-day note for $4000 at The Union Bank, interest at 6%.

February 27

Pay Voucher Nos. 14, 15, and 16, less discounts.

The following materials have been received:

1. Invoice of lumber from Warren & Co., Memphis, Tenn., dated Feb. 18. Terms: 2/10, 60 da. net, less freight. Items as follows:

18,730 ft. 1″ #1 Common Red Gum, $32

2. Invoice of hardware from Cleveland Screw and Tack Co., Chicago, dated Feb. 14. Terms: 2/10, net 30 da. Items as follows:

Flat Hd. Brt. Wood Screws, Bulk	
100 gro. $\frac{3}{4} \times 9$	$1.
100 gro. $\frac{7}{8} \times 10$	1.15
100 gro. 1×11	1.30
100 gro. 1×12	1.40
100 gro. $1\frac{1}{4} \times 11$	1.40
100 gro. $2\frac{1}{4} \times 14$	2.65
Less 75%, 20%, 10%, 2%, ½%	

3. Invoice of lumber from Thomas Lumber Co., St. Louis, Mo., dated Feb. 20. Terms: 2/10, 60 da. net, f.o.b., Madison, Wis. Items as follows:

19,048 ft. $\frac{4}{4}''$ #1 Common Quartered Red Oak	$45.50

4. Invoice of packing materials from Excelsior Pad Co., Appleton, Wis., dated Feb. 25. Terms: 30 da. net. Items as follows:

5600 16″ × 18″ Plain Pads	$9.15
36750 5″ × 34″ Plain Pads	5.05

Issue a check to the Chicago, Milwaukee and St. Paul Ry. Co. for freight on the above items, $309.65.

Distribute as follows: $145.20 on Warren & Co.'s shipment; $160.95 on Thomas Lumber Co.'s shipment; $2.05 for hardware; and $1.45 for packing supplies.

Pay Voucher Nos. 17 and 19, less discounts.

Buy postage stamps, $5.

Pay Sarah Roberts cash, for cleaning the office, $3.25.

Receive check from A. C. Cotton, in payment of the invoice of *Feb. 6*, less discount.

The pay roll for the factory labor for the two weeks amounts to $1127.45.

Issue checks to the engineer, to the officers, and to yourself for two weeks' services.

Make the same charges and distribution as on *Feb. 13*.

Pay the truck driver for his services for the past two weeks, $40.

Debit one half to *Cartage Outward*. Debit each of the following accounts with the respective sums: *Hardware*, $10; *Cane*, $1; *Upholstering*, $4; *Packing Supplies*, $2; *Finishing Materials*, $3.

Pay for advertising in the *Furniture Review*, by check, $200.

Send checks to each of the traveling salesmen for this month's salary, $150.

Close the petty cashbook.

Post the week's work.

Present all books to the instructor for inspection.

Closing the Set. Close the main cashbook. Post the columnar totals to the ledger.

Close the sales book, and post the total to the debit of *Accounts Receivable* and to the credit of *Sales.*

Close the voucher register. Consult the model on pages 454 and 455.

From the voucher register post the footing of the *Amount* column to the credit of *Vouchers Payable* in the general ledger, and debit the footing of each distribution column to its proper account in the general ledger. This completes the posting to the general ledger.

As the sales book and the *Amount* column of the voucher register have been posted to the customers' ledger and to the creditors' ledger, and the items from the *Accounts Receivable* and *Vouchers Payable* columns of the main cashbook have been posted at the end of each week, all posting is now completed.

The student will now take a trial balance from the general ledger. Have it approved by the instructor.

Make an abstract of the creditors' ledger. Prove it with the *Vouchers Payable* in the general ledger.

Make an abstract of the customers' ledger. Prove it with the *Accounts Receivable* in the general ledger.

Journal entries should be made and posted, recognizing the following facts:

The insurance for the month is $15.

The office supplies used during the month are valued at $23.47.

The fuel on hand is inventoried at $170.

The month's share of taxes is estimated at $40.

The telephone charge for the month is $9.

The directors order that the full amount of the organization expense be considered as an administrative expense of the month.

Depreciation is to be figured at the following rates per annum:

Buildings	5%
Machinery and Equipment	15%
Automobile Truck	18%

Reserve 1% of the sales for bad debts.

The sundry factory supplies used during the month were chargeable as follows:

Heat, Light, and Power	$185.
Sundry Factory Expense	267.22

The inventories of Finished Goods, Goods in Process, and the manufacturing materials are as follows:

Finished Goods	$20489.76
Goods in Process	4927.21
Lumber	9721.47
Veneers	297.41
Hardware	1121.19
Cane	987.47
Upholstering	1246.82
Finishing Materials	785.34
Packing Supplies	739.65

Compile the revenue accounts with *Manufacturing*, *Trading*, *Administration*, *Financial Income and Expense*, and *Appropriation*, as follows:

Close the accounts with Finished Goods, Goods in Process, the several material items, and the manufacturing expense accounts into the *Manufacturing* account.

Place the closing inventories of Finished Goods, Goods in Process, and the several material items upon the ledger by crediting their sum to the *Manufacturing* account.

Transfer the balance of the *Manufacturing* account, representing the cost of goods sold, to the *Trading* account.

Note. If it is desired to show in the *Manufacturing* account the cost of goods made rather than those sold, the Finished Goods inventories should be closed into the *Trading* account. The operating statement should show not only the cost of the goods made but also the cost of the goods sold (see page 445).

Close the trading expense accounts into the *Trading* account.

Close the *Sales* account into the *Trading* account.

Transfer the balance of the *Trading* account to the *Administration* account.

Close the administration expense accounts into the *Administration* account.

Transfer the balance of the *Administration* account to the *Appropriation* account.

Close the financial income and expense accounts into the *Financial Income* and *Expense* account, and transfer the balance of this account to the *Appropriation* account.

Transfer the balance of the *Appropriation* account to the *Surplus* account.

Close the general-ledger accounts.

Compile the operating and the financial statements for the month.

Hand in all books to the instructor for approval.

CHAPTER XLI

THE CONVERSION OF A PARTNERSHIP INTO A CORPORATION

The entries to be made in recording the conversion of a partnership into a corporation depend upon whether new books are to be opened for the corporation or whether the old partnership books are to be continued.

To illustrate the entries, assume that the financial statement of the partnership of Brown & Clark, which is to be converted into a corporation called the Brown & Clark Co., is as follows, and that the capital stock of the corporation is to be the same as the total investment in the partnership:

Assets		
Cash	$1000	
Accounts Receivable	5000	
Merchandise	15000	
Furniture and Furnishings	1500	
		$22500
Liabilities		
Accounts Payable		2500
Proprietary Interest		
J. C. Brown, Investment	$7000	
L. A. Clark, Investment	13000	
		$20000

Opening New Books. In case new books are to be opened, the following entries should be made in order:

1. The old books should be closed, and some record, clearly indicating that the business has been transferred to a corporation, should appear in them. These entries for the partnership of Brown & Clark are as follows:

The Brown & Clark Co.	22500	
Cash		1000
Accounts Receivable		5000
Merchandise		15000
Furniture and Furnishings		1500
To record the transfer of the assets of the partnership of Brown & Clark to the corporation, the Brown & Clark Co.		

Accounts Payable	2500	
J. C. Brown, Investment	7000	
L. A. Clark, Investment	13000	
The Brown & Clark Co.		22500
To record the assumption of the liabilities of the partnership of Brown & Clark by the corporation, the Brown & Clark Co., and to close the proprietary-interest accounts.		

2. In opening the new books of the corporation the records should clearly indicate that the assets and the liabilities were those of the partnership, now converted into the corporation. These entries for the Brown & Clark Co. are as follows:

Cash	1000	
Accounts Receivable	5000	
Merchandise	15000	
Furniture and Furnishings	1500	
Brown & Clark		22500
To record the assets which were received from the partnership of Brown & Clark.		
Brown & Clark	22500	
Accounts Payable		2500
Capital Stock		20000
To record the liabilities of the partnership of Brown & Clark assumed by the corporation, and to open the proprietary-interest account of the corporation.		

Continuing Partnership Books. In case the partnership books are to be continued by the corporation, the only point to consider is the changing of the proprietary-interest account. The journal entry in the partnership books for accomplishing this purpose is as follows:

J. C. Brown, Investment	7000	
L. A. Clark, Investment	13000	
Capital Stock		20000
To record the transfer of the proprietary interest of the business from the partnership of Brown & Clark to the corporation of the Brown & Clark Co.		

Capital Stock in Excess of Partnership Investment. Frequently the capital stock of a corporation is a larger amount than is represented by the proprietary interest accounts of the partnership which is being converted into a corporation. The increased capital stock may be due to the investment of additional capital, to the partners receiving a larger amount of capital stock than is represented by their respective investment accounts, or to a combination of these causes.

Investment of Additional Capital. To illustrate, assume that Brown & Clark decide that they need additional capital, and discuss their plans with F. M. Marling, who agrees to subscribe to $5000 capital stock of the corporation, and the capital stock is therefore increased to $25,000. If the corporation were opening new books, the following journal entry would be necessary in addition to those appearing under 2 on the preceding page.

Subscription	5000	
Capital Stock		5000
Subscription to the stock of the corporation, per subscription book.		

If the corporation were to continue using the partnership books, the journal entry necessary to record the changes in organization and capital invested would be as follows:

J. C. Brown, Investment	7000	
L. A. Clark, Investment	13000	
Subscription	5000	
Capital Stock		25000
To record the transfer of the proprietary interest of the business to the Brown & Clark Co., and to record the subscription to the capital stock for the increased amount.		

Good Will. Should Brown & Clark decide that the condition of the business warrants their taking more stock in the corporation than they had invested in the partnership, the excess is considered as good will, and the capital stock of the corporation is increased by this amount. One may find many illustrations of this method of placing *Good Will* upon the books. To illustrate, assume that Brown & Clark decide to value the good will of their business at $10,000. If the corporation were opening new books, the following journal entry would be necessary in addition to those appearing under 2, on the preceding page.

Good Will	10000	
Capital Stock		10000
To record the good will of the partnership of Brown & Clark and of the stock issued in payment thereof.		

The amount received for the good will is divided between the partners in the proportion in which they share profits and losses.

The division of the amount received for the good will need not necessarily be recorded on the partnership books. If it is desired to record it, the entry in this case, assuming profits and losses are shared equally, is as follows:

Good Will	10000	
J. C. Brown, Investment		5000
L. A. Clark, Investment		5000
To record the amount received for the good will on the sale of the business to the Brown & Clark Co.		

The entry then necessary to change the partnership books to those of the corporation is as follows:

J. C. Brown, Investment	12000	
L. A. Clark, Investment	18000	
Capital Stock		30000
To record the transfer of the proprietary interest of the business to the Brown & Clark Co.		

If the corporation were to continue using the partnership books, the journal entry necessary to record the necessary facts would be as follows:

J. C. Brown, Investment	7000	
L. A. Clark, Investment	13000	
Good Will	10000	
Capital Stock		30000
To record the transfer of the proprietary interest of the business to the Brown & Clark Co., and the estimated good will of the business.		

Investment of Additional Capital and Good Will. Should additional capital be subscribed by outsiders and should the members of the partnership also increase their own holdings, in payment of the firm's good will, both *Subscription* and *Good Will* accounts would appear as assets in the books of the corporation, while the *Capital Stock* account would

stand credited for the amount issued to all stockholders. The journal entries to record these facts would merely be combinations of the entries just given for each condition existing alone.

Division of Stock. In a partnership converted into a corporation, in which the profits were not shared in proportion to the capital contributed, the capital stock should be so divided that each partner might have equitable voice in the management of the business and at the same time receive returns upon his investment.

It is not necessary to record the details of the division or the ownership of the capital stock in the financial books of account; such facts are recorded in the appropriate stock record book. In all the entries given above it is assumed that the record of stock ownership would be kept in the stock books, so that it would agree with the facts in each case.

Conversion of Sole Proprietorship into a Corporation. The entries for recording the transfer of a business conducted as a sole proprietorship to a corporation follow the same principles as those here given for the incorporation of a partnership.

The following exercise is suggested for a drill in converting the books of a sole proprietorship or a partnership to those of a corporation.

Exercise 86. Conversion into a Corporation

1. C. W. Williams is the sole owner of a manufacturing plant. He has assets and liabilities as follows:

Assets	
Cash	$5000
Machinery	6000
Real Estate	1000
Building	4000
Raw Material	5000
Accounts Receivable	2000
Liabilities	
Accounts Payable	$7000

He decides to join with E. B. Monroe, H. L. Hinnan, and W. E. Rollins in the formation of a corporation, to be called The Williams Co. The capital stock is to be $70,000, divided into 700 shares at $100 each, of which each of the incorporators is to have 170 shares. The balance, 20 shares, is to be held in reserve, unissued. The business is to be continued at the old location of C. W. Williams and a new set of books is to be opened. Make the necessary entries to close the books of C. W. Williams and to open those of the corporation.

2. J. W. Ball is the owner of a wagon manufactory located at 492 Causeway St. A statement just made exhibits the assets and liabilities as follows:

Assets	
Real Estate	$1000
Building	4000
Machinery	6000
Raw Materials	5000
Patent Rights	2000
Finished Products	2000
Accounts Receivable	3000
Liabilities	
Accounts Payable	$4000
Notes Payable	5000

He decides to join with C. W. Henry, B. H. Robbins, and W. E. Law in the formation of a corporation, under the name of the Ball Wagon Co. The capital stock is to be $68,000, divided into 680 shares of $100 each, of which each of the incorporators is to have 160 shares. J. W. Ball is to receive 160 shares of paid-up stock for his interest as above. The balance, 40 shares, is to be held in reserve, unissued.

The business is to be continued at the old location of J. W. Ball, and a new set of books is to be opened. Required, the necessary entries to close the books of J. W. Ball and to open those of the corporation.

C. W. Henry, B. H. Robbins, and W. E. Law pay for their subscriptions in cash. Required, the necessary entry.

Sell 10 shares of the unsold capital stock referred to at $100 a share to A. B. Miller on his note at 30 da. Required, the necessary entries.

3. I. N. Salsbury, F. O. Gray, and E. W. Masten are associated as partners in a knitting mill, under the firm name of Salsbury, Gray & Co. Their investments are as follows:

I. N. Salsbury	$7400
F. O. Gray	7200
E. W. Masten	4900

They decide to reorganize and to incorporate their business, under the name The Salsbury Knitting Co. A capital stock of $30,000, consisting of 300 shares at $100 per share, is decided upon. The partners are to receive paid-up stock for their respective interests and the good will as follows:

I. N. Salsbury	80 shares
F. O. Gray	80 shares
E. W. Masten	65 shares

Of the remaining capital stock, D. E. Mosher subscribes for 25 shares; M. P. Keeler, 15 shares; R. Cronk, 10 shares. The balance of the capital stock, 25 shares, is to be held in reserve, unissued. A statement of the present assets and liabilities has been submitted by the old partners and is accepted by the corporation. This statement is as follows:

Assets	
Accounts Receivable	$4000
Raw Material	3000
Machinery	3000
Real Estate	1000
Building	5000
Cash	2700
Finished Product	2900
Liabilities	
Accounts Payable	$1600
Notes Payable	500

A new set of books is to be opened by the corporation. Required, the necessary entries to close the partnership books and to open the books of the corporation.

4. Jackson & Johnson, trading in partnership and sharing profits and losses in proportion to three fourths and one fourth, respectively, sold their business to a corporation, Law & Co. The capital stock of Law & Co. is $56,000.

The financial statement of Jackson & Johnson appeared as follows:

Assets		
Equipment	$10000	
Furniture and Furnishings	3250	
Mdse. Stock	37500	
Accounts Receivable	12500	
Notes Receivable	2500	
Cash on deposit	3000	
		$68750
Liabilities		
Accounts Payable		18750
Proprietary Interest		
Jackson, Investment	$30000	
Johnson, Investment	20000	
		$50000

The purchasers agreed to give $10,000 for the good will, but would take over the merchandise stock at only $35,000 and the equipment at $8500.

a. Give the journal entries for closing the books of Jackson & Johnson.

b. Give the journal entries for opening the books of Law & Co.

NOTE. The entry to record the loss suffered through the assets being taken over at reduced amounts is as follows:

Profit and Loss on Sale of Business	4000	
Equipment		1500
Merchandise Stock		2500
To record loss on assets sold to Law & Co.		

The division of the amount received for the good will need not necessarily be recorded on the partnership books. If it is desired to record it, the entry is:

Good Will	10000	
Profit and Loss on Sale of Business		10000
To record the amount received for the good will on the sale of the business to Law & Co.		

The net profit from the sale of the business is divided between Jackson & Johnson in the agreed proportion.

5. Hatch and Richardson, equal partners, decided to incorporate on Dec. 31, 19—. At that date their financial statement was as follows:

ASSETS		
Real Estate and Improvements	$25000	
Notes Receivable	10000	
Accounts Receivable	20000	
Mdse. Inventory	20000	
Cash	2500	
Total Assets		$77500
LIABILITIES		
Notes Payable	$13500	
Accounts Payable	20000	
Total Liabilities		33500
PROPRIETARY INTEREST		
Hatch, Investment	$22000	
Richardson, Investment	22000	
		$44000

A corporation, the Hatch & Richardson Co., was organized with a capital stock of $100,000. With the exception of real estate and

improvements being valued at $35,000, the assets and the liabilities were taken over by the corporation at book values. Hatch and Richardson were to receive $26,000 for the good will of the business. The entire payment to Hatch and Richardson was to be made in capital stock of the new corporation. Cash subscriptions were received as follows:

Eaton	$5000
Robinson	10000
Jenkins	5000

A new set of books is to be opened.

a. Prepare the closing journal entries for the partnership of Hatch and Richardson.

b. Prepare the opening entries for the Hatch & Richardson Co.

CHAPTER XLII

INTRODUCTION TO COST ACCOUNTING

Cost accounting is one of the most complex divisions of accounting. This subject merits not only a thorough study of all the theoretical points involved but also a knowledge of the various methods of recording data in the system that may be designed.

Cost accounting cannot be mastered by learning the mechanical routine of any one special method, but attention should be given to all methods likely to be found in use. For this reason no attempt is made in the following chapter to go into the subject in detail. The subject in general is treated summarily, but those portions with which the cost clerk should be familiar are more fully explained.

Why a Cost System is Necessary. The general financial accounts record the transactions of a business with the general business public. Operating and financial statements compiled from such accounts reveal the result of the operations of the period and the financial status at the close of the period, respectively. The manufacturing section of the operating statement contains the total expenses incurred during the period in manufacturing the product, the trading section shows the total expenses incurred in disposing of the sales of the period, and the administration section contains the expenses incurred for the general administration of the business. However, the total cost of manufacturing the product for the period under review is not what is needed, but rather the cost of the product completed and delivered, for such costs are the only ones which should be offset against the sales in determining the gross profit or loss for the period. No manufacturer should expect that the sales of a period would return a profit when the cost of products not completed or delivered are included in the cost of the goods sold. The net result of such a system leads to the adoption of incorrect business policies, based upon misleading figures.

The items of material and labor may be used to illustrate this point. In many factories there are usually orders in progress at the end of the period which are chargeable with various amounts of material, labor, and expense. Other orders may be completed but not

yet delivered to the customers. Unless the value of the materials in the goods in progress and in completed orders is recognized, the sales of the current period are charged with material which is chargeable to a future period.

The same criticism applies to labor. Wages are paid to factory employees who may have worked upon orders completed and delivered, orders completed but undelivered, or upon uncompleted orders. The sales of the period should be charged only with the labor upon completed and delivered orders, and the other labor costs should be segregated so that they may be charged against the sale of some future period.

It should be apparent that the *Manufacturing* account should be charged only with the cost of items entering into the orders completed and delivered, and the means by which this may be accomplished is through the operation of a cost system.

The operating statement contains totals only, and does not show the cost of individual orders which may have passed through the factory during the fiscal period. The net result of the operating statement may be a profit, yet the management cannot tell which jobs were handled at a profit and which at a loss. Perhaps a small profit was made upon every order that was sold; perhaps great losses were suffered on some orders, while on others such large profits were made that the net result of the operations for the period was a gain.

Such an unsystematic and unwise method is unfair to customers and competitors, for selling prices on all products should be based on cost plus a fair profit. Customers suffer in trading with concerns which do not have cost systems through being overcharged or undercharged, for seldom can a proper price be fixed by guess. Competitors also suffer through having to compete with concerns who, through lack of knowledge of costs, are demoralizing business by selling many products below the actual cost of production. The management of the business itself suffers in that it is unable to know the lines which the factory is able to produce at the greatest profit. Such lines are obviously the ones which should be pushed, and the nonprofitable lines should be placed upon a profit-producing basis or perhaps eliminated.

Definition. A cost system, therefore, furnishes a basis for recording the operations of the business within itself, with a view of determining the cost of the product being manufactured.

Types of Cost Systems. There are several different types of cost systems, but the two in most common use are known as the order type and the process type. Under the order type costs are kept according to order number, while under the process type costs are kept according

to the factory processes or departments and then assembled to find the total cost of the manufactured product.

Kinds of Cost Systems. Cost systems are of two kinds, — cost-finding systems and cost-accounting systems.

Cost-Finding Systems. These systems consist of detailed records kept upon forms which enable the management to ascertain the cost of the product, but they do not allow a basis for proving that the costs are correct. The cost-finding system supplements the financial-accounting system; but the former is based upon single entry, while the latter is based upon double entry. The use of cost-finding systems should not be encouraged by accountants for the reason that the only satisfactory system, the one which will ultimately be used, is the cost-accounting system, which is based upon double entry and is capable of proof, analysis, and interpretation.

A cost-finding system may be changed into a cost-accounting system by supplying the proper accounting basis.

Cost-Accounting Systems. At least four different types of cost-accounting systems are used sufficiently in this country to warrant summary descriptions being given. Detailed descriptions and problems illustrating the application of these principles form the basis of a course of study in cost accounting, which is not treated in this text.

Where only one grade of one commodity is manufactured or produced, the cost of production may be divided by the number of the units in order to obtain unit cost. Such a cost system may be called the accounting-cost system. It is the simplest type of a cost-accounting system; but its use is limited, since the greater number of industries produce not only more than one grade of a single commodity but also many different commodities.

A second cost-accounting system is based upon the use of a controlling account kept in the general ledger which controls a subsidiary cost ledger. The controlling account may be called the *Cost* account, *Factory* account, *Production* account, or *Manufacturing* account, depending upon whether the subsidiary ledger is called the cost ledger, factory ledger, production ledger, or manufacturing ledger. All these terms refer to one and the same thing, — a general-ledger account which controls a ledger containing detailed cost by orders, departments, or processes.

When the cost- and financial-accounting systems are combined, the system is known as the interlocked accounting system. Under this system the cost accounts appear in the general ledger, and of necessity they must be kept up to date if the operating and the financial statements are to be obtained.

The fourth kind of a cost-accounting system in use is called the parallel system. The cost system is separate and distinct from the general financial system, and yet appropriate data are given to the administrative office at the end of a period to permit an accurate cost of manufacture being obtained for the period. Such a cost-accounting system parallels the financial system as far as factory accounts are concerned and involves the keeping of distinct and separate factory records, — one set in the office, another at the factory.

Selling Price. The selling price of any manufactured commodity consists of six elements:

1. Material
2. Labor
3. Manufacturing Expense
4. Selling Expense
5. Discount on Sales
6. Profit

The way in which these six elements enter into the selling price may be seen from the following outline:

SELLING PRICE

1. Factory Cost
   - (1) Prime Cost
     - *a.* Material
     - *b.* Productive Labor
   - (2) Manufacturing Expenses
2. Selling Expenses
3. Discount on Sales
4. Profit

The student should be familiar with the terms employed in this outline. Prime cost always refers to the cost of materials plus the cost of labor spent directly upon the commodity. Factory cost is obtained by adding the manufacturing expenses to prime cost and thus represents the cost of the article completed and ready for the market. The selling expenses, the discount on sales, and the desired profit must be considered before the actual selling price is obtained.

Each of the elements is considered in the following pages:

Material. Material includes all which is a part of the manufactured commodity. It may include raw material and materials which have been either partly finished or entirely completed by other manufacturers. Its value is the important point to consider in accounting for costs, although its physical form or condition is taken into consideration in devising methods for caring for the material before it enters into the manufactured product.

Materials used in the process of manufacture are frequently called stores, the room in which they are kept is referred to as the stores room, the person in charge of the stores room is known as the storeskeeper, and his assistants are called stores clerks.

Materials which are directly consumed in the manufacture of a commodity are called direct materials. For example, lumber, glue, hardware, and varnish are among the direct materials which enter into the manufacture of furniture. Direct materials are charged directly to the order or process of which they become a part after they have been measured, weighed, and valued.

Materials which are consumed in a factory but which do not enter directly into a manufactured article are called indirect materials. For example, oils and other machinery supplies are consumed, but their cost cannot be chargeable to any one order or process. The cost of indirect materials is considered an item of manufacturing expense.

The cost of the material used in manufacturing is the cost of the material when ready to be used, and therefore includes the following items:

Invoice	Stores-room Expense
Freight, Express, and Cartage	Purchasing Department Expense

The invoice cost is the price at which the material is billed, less any discount which may be allowed for prompt payment. The freight, express, or cartage on the material includes all the carrying and drayage charges on a shipment up to the time it is received at the factory. Stores-room expenses include stores-room rent, heat, light, power, insurance and taxes on stores, wages of storeskeepers and stores clerks, depreciation and repairs of stores equipment, and any other expenses which are incurred in storing the materials until they are needed in the factory. Each lot of material withdrawn for factory use is chargeable with a portion of the stores-room expense, determined upon a percentage basis of cost, weight, or volume of materials.

The purchasing-department expenses include all expenses of the department intrusted with the duty of buying materials. Such expenses are usually apportioned to the purchases on a percentage basis, the same as stores-room expenses — by cost, weight, or volume.

The forms ordinarily used in a factory to record data relative to the purchase, receipt, storage, and consumption of materials are as follows:

Purchase requisition	Stores requisition
Purchase order	Stores credit slip
Report of materials received	Stores distribution blank
Stores ledger	

All forms used in cost systems should be numbered consecutively, and each must be accounted for. It is the general practice to use different colored stock for the several copies of a form, to facilitate quick handling and ready reference.

The *purchase requisition* is a form issued by the storeskeeper to the purchasing department. It is made in duplicate. The original is sent to the purchasing department, and the duplicate is retained by the storeskeeper and filed numerically for reference. The following illustration contains the data usually found on a purchase requisition.

No.__________

To Purchasing Agent:

Date__________

Please order the following goods:

Quantity	Unit	Articles	Date Wanted	Order Number

For__________Dept. By__________

__________Storeskeeper

PURCHASE REQUISITION

After the purchasing department has verified the need for the materials and has decided upon the firm from whom they may be most advantageously purchased, a *purchase order* is issued. The purchase order may be made in quadruplicate, the original sent to the vendor, the duplicate retained for the purchasing-department files, the triplicate sent to the stores room, and the quadruplicate sent to the receiving department. A short carbon should be used in writing the fourth copy so that the receiving department may not know how many units are supposed to be in the shipment. The retained copies of the purchase order may be filed according to number, date, vendor, or commodity, and not infrequently cross references are established so that by consulting any one index the other data may be obtained. A typical ruling of a purchase order is shown in the following illustration:

The A. B. Co.,
Madison, Wis.

PURCHASE ORDER

Order No.__________
Date__________

To____________________
____

Ship on or before__________ via__________ Terms__________

All invoices and packages must be marked with purchase order number	Quantity	Size or Number	Description	Price	Amount
(This space to be used as binding margin on each of the copies.)					

PURCHASE ORDER

The *report of materials received* is made out in the receiving department by the clerk after counting the number of units of materials received. The following form shows a ruling for such a report, which

The A. B. Co.,
Madison, Wis.

REPORT OF
MATERIALS RECEIVED

No.__________
Date__________

Order No.	From	Quantity	Unit	Articles

REPORT OF MATERIALS RECEIVED

should be made in triplicate. The original should be sent to the financial accounting office, where it will be checked with the invoice; the

duplicate should be sent with the materials to the stores room; and the triplicate should be retained in the receiving-department office.

The *stores ledger* is one of the most important records of materials; in fact, it is considered an essential of a good cost-accounting system. The stores-ledger form, illustrated below, may be printed upon a card or a ledger sheet. The purpose of the ledger is to keep an accurate record of all materials received and disbursed. The difference between these amounts should correspond to the quantity on hand. For this reason the stores ledger is frequently called a perpetual inventory. Data for the *Received* section of the stores ledger are obtained by the storeskeeper from the duplicate *report of materials received.* The materials requisition, described below, furnishes data which enables the storeskeeper to fill out the several columns of the *Disbursed* section of the stores ledger. The spaces to record the minimum and the maximum amounts are to contain the quantities below and above which the amount in store should not be reduced nor increased. The minimum and the maximum amounts are determined for each commodity by the quantities needed so that production will not be retarded by the plant capacity, by the nearness to market, by the time required for delivery, or by market conditions. The normal is the average which experience, in view of prevailing conditions, shows it is best to have on hand. Stores ledgers may be kept either by commodity name or by number. Certain combinations of these methods are also used.

The A. B. Co.
Madison, Wis.

STORES LEDGER

Sheet No.______
Material______
Size______
Unit______ Maximum______ Minimum______ Normal______ Location______

	Received							Disbursed					Balance		
Binding Margin	Date	P. Order Number	Quantity	Unit Price	Invoice Cost	Freight and Cartage	Total Cost	Date	Req. No.	Quantity	Price	Value	Quantity	Value	Ave. Unit Price

STORES LEDGER

In some cost systems only quantities are kept on the stores ledgers, no reference being made to unit cost prices. In other systems both quantity and the several costs are considered in arriving at the value

of the materials, obtained in the *Balance* section, and the average unit price. If costs are kept, the storeskeeper receives them from the general accounting office; but if quantities only are kept, the cost department records the value of materials used when it receives notice of withdrawal and consumption.

The *stores requisition* is an order drawn upon the storeskeeper by the foreman of a department, requesting the delivery of the designated material to the bearer of the requisition. The data usually appearing upon such a requisition are shown in the following illustration. This requisition should be made in duplicate, the original going to the storeskeeper and the duplicate retained for the departmental file.

The A. B. Co.,
Madison, Wis.

STORES REQUISITION

No.__________

Date__________

To Storekeeper:
Please deliver the following materials to__________

Binding Margin

Quantity	Unit	Description	Unit Price	Amount	Entered Store Ledger		Charge Order	
					Page	✓	Number	✓

Authorized by __________ Foreman

Delivered by __________

Received by __________

STORES REQUISITION

The *stores credit slip*, sometimes called a material returned slip, is a form accompanying the return of materials by departments to the stores room. The slip illustrated on the next page shows a ruling of this form which is made in duplicate, the original being given to the storeskeeper and the duplicate retained for the departmental files. These slips enable the storeskeeper to charge the appropriate accounts with the commodities returned, and the departmental file supplies evidence of the return which reduces the cost of materials charged to the order or the process.

In many factories certain summaries or recapitulations of the stores withdrawn are made by the storeskeeper. These summaries are sent to the cost department, where each order or process is charged with the appropriate totals indicated. The purpose of having a stores

The A. B. Co.,
Madison, Wis.

STORES CREDIT SLIP

No.________
Date________

Binding Margin

Quantity	Unit	Description	Unit Price	Amount	Entered Store Ledger		Credit Order	
					Page	✓	Number	✓

Delivered by ________ Received by ________

STORES CREDIT SLIP

distribution blank is to decrease the labor involved in posting material items to the individual order or process cost sheet. The summaries may be made daily, weekly, or monthly, according to the conditions prevailing in the plant under consideration. A columnar ruled blank may be used for distributing withdrawn stores by order numbers or process departments. The columnar headings may be inserted, and the totals of the columns posted to the proper accounts.

Labor. The labor employed in a factory is of two kinds, productive and nonproductive. Productive labor is that spent directly upon the jobs or processes passing through the factory, and nonproductive labor is that made necessary by the operation of the plant, but not expended directly upon the article being manufactured. The labor of the workmen upon the jobs or processes, at bench or machine, is therefore productive, while the labor of the superintendent, the foreman, the janitor, or the repair men is nonproductive.

Among the various systems of paying productive labor are the day wage, piece rate, premium rate, task, differential piece rate, efficiency, bonus, and profit-sharing methods, as well as many modifications and combinations of these systems. Nonproductive labor is usually paid a monthly or a weekly wage. A detailed description of the methods of paying productive labor is not given in this text, as the cost clerk is concerned chiefly with recording the time spent by the workmen upon orders in process and with verifying the time as charged to jobs with the time the workmen are in the factory.

The time spent by workmen upon orders in process may be recorded by hand or by a time-recording device upon a daily time ticket, upon a job time ticket, and, in some factories, upon the individual job-order record itself.

Regardless of the form upon which the time is recorded, the following information should be available: the date, the name, or the number of the workman, the job number or process worked upon, the time spent upon the job or process, and the signature or initials of the departmental foreman attesting the accuracy of the record. Space should also be allowed for the extension of the labor charges, but this is usually done in the cost department, where the workman's unit rate is multiplied by the units of time spent.

The exact form of time tickets depends upon the method of wage payment, upon the method of recording time, hand or machine, and upon the sundry auxiliary uses to be made of the tickets in the factory.

DAILY TIME TICKET

Workman's Name ________ Date ________ Dept. ________

Kind of Work	From	To	Time Spent	Rate	Amount	Job No.	✓

Total ________ ________

Approved ________ Foreman

DAILY TIME TICKET

A ruling of the daily time ticket is shown above. The total of the time chargeable to jobs should equal the total time spent in the factory. When the daily time ticket is used, it is necessary for the cost-department employees to post, to the respective order, the time chargeable to each job or process. The daily time tickets may then be filed according to the date or according to the workman's name or number. Very often several men may be working on the same job, and in order to save posting details to the job order, distributions by jobs are made

on a separate form, from which totals are posted to the order record at the end of a day, week, or month. A columnar ruled sheet, in which the job numbers are inserted for columnar headings, may be used for this purpose.

A ruling of the job time ticket is shown in the following illustration. The total of the time recorded on the job tickets of a day gives the total time spent by the workman in the factory. Generally a record is made of the time and the output of each workman, to determine the wages to which he is entitled. The job tickets are filed in the cost department according to order number or process. A columnar ruled sheet may be used for obtaining totals to post to the individual job-order record. The job ticket possesses great elasticity and adaptability in meeting the requirements of any particular cost-accounting system.

Dept. ______________________ Job No. ______________

Workman's Name ______________________ Date ______________

Kind of Work	Began	Finished	Time	Rate	Amount

Approved ______________________
Foreman

JOB TIME TICKET

In a few industries time tickets, either daily or job, are kept for machines, upon which one or more men may be employed.

The following form shows the ruling of a job order which sometimes accompanies the materials through the factory, and upon which are recorded all material and labor charges by the workmen or foremen. Summaries by workman's name or number may be taken off the job-order record, to determine the wages due the workman and to reconcile the time charged to jobs with the time the workman was in the factory.

In the great majority of cost systems the job order remains in the cost department, where the amounts of material and labor charges are

entered upon it by the cost clerks. The file of uncompleted job orders represents the value of goods in progress throughout the factory.

The handling of labor records well illustrates the manner in which checks for accuracy are obtained in modern accounting. The time the workman is in the factory should agree with the time charged to the job orders, and the amount of the pay roll should agree with the cost of labor charged to job orders.

Manufacturing Expense. Manufacturing expense is often referred to as indirect expense, factory expense, and burden. Manufacturing

For____________________	Job No.____________________
____________________	Date Ordered____________________
Description____________________	To be Delivered____________________

Materials			Labor				Summary
Date	Dept.	Amount	Date	Dept.	Workman	Amount	
							Materials Labor Mfg. Expense Factory Cost Selling Expense Discount on Sales Profit Sales Price Quoted Sales Price Profit or Loss on Est. Shipped__________ via__________ Charged to Account__________

INDIVIDUAL JOB ORDER RECORD

expense includes indirect materials, nonproductive labor, and all other factory expenses which cannot be charged against the jobs direct; such as factory rent, heat, light, power, depreciation, insurance, taxes, and maintenance charges.

Generally the administrative expenses of a manufacturing concern are divided between manufacturing expense and selling expense, in proportion to the benefit each receives from the general administration of the business.

The great problem in cost accounting is to determine the proper expense chargeable to the factory and to distribute the resulting

manufacturing expense over the manufactured product in such a way as to reveal the true cost of production.

Several different methods of distributing manufacturing expense are in use, each one adapted to certain conditions which must prevail in order that satisfactory results may be obtained from the use of the method. Among the different bases and methods that are used in different industries for distributing manufacturing expense are the productive-labor cost basis, the productive-labor hour basis, the productive-labor and material cost basis, the scientific machine-rate method, the fixed machine-rate method, the direct departmental expense basis, and the tonnage basis. A study of the method of calculation, use, advantages, and disadvantages of each of these plans is a most important part of a course in cost accounting, and is not included in this text.

To illustrate the application of one-percentage method, assume that the expense is distributed on the productive-labor cost basis, and that the manufacturing expense percentage for the current period is given as 50%. For every dollar charged to an order for labor, 50% of the amount should be added as that portion of the total manufacturing expense which each order should bear.

Selling Expenses. Selling expenses include all expenses incurred in marketing the manufactured product. Among such items are salesmen's salaries, commission and expenses, salesroom rent, heat and light, depreciation on salesroom furniture and furnishings, maintenance of salesroom equipment, credit-department expenses, bad debts, shipping-room expenses, delivery expense, a portion of the administrative charges, and all other items connected with selling the product. While in some industries it is possible and practicable to charge the selling expenses directly against the order for which they are incurred, selling expenses are usually distributed over the entire sales on a percentage basis. To illustrate, assume that the total sales are $200,000 and the selling expenses, $30,000. Since the selling expenses are 15% of the sales, this percentage is taken into consideration in determining the selling price of the product.

Discount on Sales. Discount on sales is an amount considered in fixing the selling price of an article so that if the customer takes advantage of the discount offered for prompt payment, the manufacturing profit of the seller is not thereby reduced. In present-day accounting methods, the *Discount on Sales* account is considered as a financial expense, a loss suffered through a customer paying his bill within the specified time. However, few manufacturers knowingly grant cash discount and suffer the loss themselves through reduced profits.

Profit. Profit is the amount which a manufacturer desires to gain by selling an article, and is usually referred to in terms of percentage. To illustrate, a manufacturer may say he desires to make 10% profit, which means that the selling price of an article should be such an amount as will yield this percentage of profit after deducting the factory cost, the selling expenses, and the discount on sales. The calculation of the price at which a manufactured article should be sold to return a desired profit may be illustrated from the following facts regarding Job No. 10 just completed in the factory:

The material cost is $50; labor cost, $75; the manufacturing expense is calculated at 50% of the labor cost; the selling expenses are figured at 15% of the sales price; 3% sales discount is to be allowed for the payment of the bill within 30 da.; and a profit of 10% on sales price is desired.

Job No. 10

Material Cost	$50.
Labor Cost	75.
Prime Cost	$125.
Manufacturing Expense	37.50
Factory Cost	$162.50
Selling Expenses	33.85
Discount on Sales	6.77
Profit	22.57
Selling Price	$225.69

Note. Selling price minus (selling expenses plus discount on sales plus profit) equals factory cost; that is, 100% – (15% + 3% + 10%) = 72%. Hence $162.50 (factory cost) is 72% of the selling price, which is therefore $225.69.

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